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THE MONEY MARKET

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AND

HOW IT IS MANAGED.

THIRD EDITION, Re-written to Present Date by

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THE

MONEY MARKET:

WHAT IT IS, WHAT IT DOES, AND HOW IT IS MANAGED.

An Introduction to Financial Science.

THIRD EDITION, REVISED AND CORRECTED

BY

A CITY MAN.

LONDON:
FREDERICK WARNE AND CO.
BEDFORD STREET, COVENT GARDEN.
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PREFACE

TO

THE THIRD EDITION.

THE object of this work on Financial Science may be stated in a few words. Its aim is to place before the public in as popular a manner, and clothed in as simple language as possible, an outline of the nature and elements of that vast system of monetary operations in which this country performs so important a part and is so deeply interested. The hope may be ventured that the rapid exhaustion of two large editions has proved the need of a work of this description, and no pains have been spared in the revision of the present, in order that it may be rendered as complete and accurate as possible to the present date.

LONDON, *June*, 1873.

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THE MONEY MARKET.

CHAPTER I.

THE TERMS—MONEY—CURRENCY—THE MONEY MARKET, &c. &c.

What is a Pound?—Terminology—Meaning of the terms Money and Currency—Difference between Money and Currency, Value and Price.

THE late Sir Robert Peel startled the House of Commons into a remarkable confession of unconscious ignorance, by asking the apparently simple question—"What is a Pound?" It is probable that a great majority of persons considered well educated would feel as much embarrassed were they asked—What is money? and what is meant by the Money Market? They imagine that they are acquainted with all that is necessary on the subject, and are not aware how little they do know, till they proceed to subject their knowledge to scrutiny. Of all sciences monetary science has

been branded as at once the most dry and the most difficult, and the notion thus formed has deterred thousands from attempting its study. Yet the elements of the science are singularly interesting. To trace the causes which have led to the civilization of the world, to the greatness of nations, to the comforts and conveniences of life, cannot but be a fascinating investigation; and like all other sciences, as its interest increases its difficulties diminish.

To prosecute any study with success, it is first necessary to understand clearly the terms made use of. Half the difficulties which have troubled mankind have derived their origin from the neglect of so simple a preliminary. We shall commence this treatise, therefore, by explaining its terminology.

"Money" is the term applied generally to the circulation used, or, stated more accurately, to that substance, of whatever nature it may be, which is by common consent, and for the convenience of the community, employed to represent goods in effecting their barter or sale. In civilized countries gold, silver, and copper coins, of a certain weight and fineness, are used as *money, on account* of the scarcity of these metals,

their durability, uniformity, and easy divisibility. The word "currency" is used to denote that particular kind of money which is accepted in any district or country as the instrument of purchase and sale, and, as that which is so accepted in any one district or country may be refused in another, "currency" is a more restricted term than "money," and applies to a thing subject to changes, to the operations of law and national custom. Thus, a Greek drachma or a Roman denarius will be a piece of money so long as it exists, but it is no longer currency. The authority which made it current—or, in other words, enabled it "*to run*"—has passed away. New rulers have superseded it, and have stamped other pieces to fill its place. Hence we have no word bearing the same relation to "currency" that "monied" does to money.

"THE MONEY MARKET," again, is a term which sometimes occasions a great amount of perplexity to the uninitiated; for, to those who consider money solely as the instrument by which purchases and sales are effected, to buy or sell money must appear an unintelligible expression. But although we are accustomed to speak of "buying" goods with money, it would be quite as accurate to invert

the form of operation, and speak of buying money with goods or other valuable property.

For instance, I hold a promissory note of A B, engaging to pay me £100 at the end of three months' time. I want the money *now*. I *buy* it, therefore, with A B's note; and the difference between £100 and the sum I receive for the note is the price I pay for the accommodation. On the other hand, the purchaser or "*discounter*" of the note buys with a sum of money short of £100 the right of receiving £100 at the end of three months. Here time and money are the elements of the transaction. In like manner, the element of distance may be introduced. With £105 I may bargain, at a certain date, to receive the equivalent of £110 at Madrid.

The money market exists wherever monetary transactions are carried on, and the term signifies the *rationale* of such transactions over the whole mercantile world. When the total supply of surplus money, unemployed in a reproductive manner, is abundant, the market is said to be "easy;" when it is scarce, the market is "tight." The market is affected by peace and war, by diplomacy and politics, as well as by *commerce;* and it affects in turn public and

private credit; mercantile and individual interests. It aids or hinders enterprise, and is, generally speaking, the gauge of commercial prosperity. Two other terms, of an abstract nature, require a few words of explanation; these are "value" and "price." Value, as a term in ordinary use, implies utility; a thing is valuable according to its usefulness. Air, fire, health, life, energy, morality, are valuable, or useful, because without some of these we cannot live happily; without others we cannot live at all; but they are of no exchangeable value in the money market, where the term is solely used in the sense of that market. If a man could exchange for some other commodity his share in the July sunshine, or his right to breathe the common air, then these would have "value"—that is, they would become marketable and susceptible of price. "Value," in a commercial and politico-economical sense, may be defined as the general purchasing or exchanging power of a commodity, and "price" as such value expressed in relation to money.

But the price of a commodity may be sometimes less and sometimes more than its real value; as an instance, reference may be made to the prices of articles of commerce and of

monetary securities of the highest class during the continuance of the periodical commercial panics which have taken place during the present century. In consequence of a large number of holders rushing into the market, under the influence of fear, to sell commodities or securities at any price in order to supply themselves with money, and a corresponding number of purchasers not being immediately forthcoming, the sellers were compelled to submit to immense depreciations in prices, far below the real value of the commodities or securities they held.

On the other hand, in seasons of prosperity, the public, flushed with success, and sanguine as to the future, as frequently embarks recklessly in the purchase of goods and securities, and from a scarcity of sellers, prices are forced up beyond the real value.

We shall now proceed to consider the nature and powers of money.

CHAPTER II.

ORIGIN AND VARIETIES OF MONEY—BARTER—COINAGE.

Ancient Money—The Patriarchal Age—System of Barter—Exchange Difficulties—Use of Bullion—Invention of Coinage—Lydian Coins—Names of Ancient and Modern Money—Coinage of Athens—Modern Coins—Base Coinages.

THERE are few questions connected with political economy more surrounded with difficulties than what is called the "currency question," and there are few about which greater errors prevail. Of these, one of the greatest, perhaps the greatest of all, is that which confounds wealth with money—an error all the more serious from its almost universal diffusion. A little attention to the etymological meaning of words would help us greatly in this and many other matters. Wealth is a Saxon word, and signifies that which constitutes our *well-being*. We speak of the *commonwealth*, or common *weal*, which is a more comprehensive term than the Roman *res-publica*, and applies not only to the possessions, but also to the happiness of the body

politic. Another phrase shows us that the opposite of weal or wealth is not poverty, but *woe*. Riches and poverty are correlative terms, but wealth and poverty are not so. But neither may riches be confounded with money, nor the want of money be considered synonymous with poverty. What, then, constitutes money? A circulating medium. It may be gold, silver, and copper, as in civilized Europe; it may be tin, as in the Birman empire; it may be shells, as on the coast of Africa; or it may be salt, as in the interior of the same continent; but whatever form it may assume, it is the current representative of value. Were there no such thing as money, all the products of the earth would have to be bartered one for the other; the division of labour would be all but impossible, and trade could hardly exist.

Let us take a familiar instance: A boat-builder has constructed a boat; he wants boots; a bootmaker can supply him with boots, but he does not want the boat, which is all the builder has to offer, nor does the builder require so many boots as will make up the value of the boat. Both, then, must wait till they find other parties with other goods, by means of which, through a series of barters, the builder may dis-

pose of his boat and obtain his boots. Now, all this is done by a simple transaction when money is used. It acts, in the first place, as a universal measure of value; so that, instead of saying one boat is equal to thirty pairs of boots, and one leg of mutton is equal to ten and a half four-pound loaves, we say the boat is worth £30 sterling, the pair of boots is worth one pound, the leg of mutton is worth seven shillings, and the four-pound loaf is worth eightpence; secondly, it renders ordinary barter needless, for the boat-builder is able to sell his boat at once to the person who requires it, and with the *money* to buy boots, and whatever else he requires instead. Yet this is but a new and more convenient kind of barter, after all; instead of obtaining bread, meat, boots, coats, and a cottage, directly in exchange for so many boats, he obtains a certain amount of silver and gold, which in his turn he barters for the necessaries of life. Or, to take a step deeper still, the money is a common measure, which, in the great division of productive labour, enables him to barter his own for that of his fellows.

The necessity of some kind of currency would arise in a very early state of civilization. The division of labour would require some measure of

value; this must soon become a common measure, and actual barter would speedily take a more complicated but more convenient form, by making this common measure to serve as a circulating medium. Mankind was not long in deciding that the precious metals formed by far the most convenient material for such a medium; they are subject to little fluctuation of value: they are scarce, durable, extremely divisible, and of small bulk; they readily take and long retain the impress of any stamp made upon them, and thus may easily be rendered representatives of any amount of current value. Again, they are not a merely fictitious standard; the coin which we call a sovereign does not derive its value solely from the amount at which it is fixed by the Government; for if we melt it, or cut it in pieces, we can procure with it nearly as much of any commodity. It is intrinsically worth what we buy with it, and the same may be said, with near approach to accuracy, of all the gold and silver coins of this realm; they are, in fact, valuables, capable of being bartered for other valuables, and by their divisions and subdivisions extremely convenient for the purpose.

The civilization of Egypt was the first, so far as *we can* discover, which adopted and enjoyed the

inevitably beneficial results of this expedient. Commercial dealings gradually became smaller in the individual transaction, but larger on the whole, as men were gathered into cities, and the division of labour more complete. Rings of gold and silver, adjusted to a certain weight and fineness, and strung on cords by certain numbers, supplied for ages the requisite currency. These rings saved all the trouble of weighing and dividing; they could be made small enough for daily purchases, and so far possessed all the advantages of a coinage properly so called; but on the other hand they might be easily counterfeited, and their weight and quality had to be taken on the authority of him who offered them. The touchstone and the scales were occasionally necessary, and all purchases seemed to require the weighing as well as the counting of the rings; thus much we gather from Egyptian monuments.

Cæsar, describing the currency used in Britain before his invasion, speaks of rings graduated to a certain weight as forming an important part of it. He mentions, indeed, only iron as so used; but, as in Ireland, gold and silver rings, very carefully adjusted as to their weight, have been found in considerable numbers, and as it appears certain that they were used as currency, it seems most

probable that such was the case also in our own island. To this day small bars of silver, bent into a half circle, and called fish-hook money, pass current in Ceylon; these, however, are stamped with certain Cingalese characters, and are always of the same weight (68 grains); so that they are in fact coins, and only differ from those more commonly used by the peculiarity of their shape.

The names anciently given to money are very suggestive; some indicate weight or quality, and others value or wealth. The earliest with which we are acquainted occurs in the book of Genesis, xxxiii. 19, where Jacob is said to have bought a part of a field from the children of Hamor for a hundred pieces of money; but the word used has been translated "*a lamb.*" Coined money was not in use for many centuries later; and the question arises whether the bullion was marked with the figure of a lamb, or whether lambs themselves were the medium of barter. The same expression occurs in the book of Job, xiii. 11, where friends are described as giving him each one a "lamb," or "a piece of money" so marked; but the word there used, "*kesitah,*" signifies a portion, and the whole argument as to the stamp of a lamb thus *falls to the* ground. There is, however, nothing

improbable in "*portions*" of silver having such a stamp, and being called by such a name, just as, in subsequent periods, we find masses of lead or iron cast into the shape of a pig, and called respectively pigs of lead or iron. The *kesitah*, as a coin, belonged to Cyprus, and was not struck till B.C. 450. The Roman *pecunia*, signifying *cattle*, did certainly indicate the patriarchal condition, in which the wealth of the rich consisted in flocks and herds; and some of the earliest pieces are, in consideration of this, marked with an ox. *Money* is derived from "*monere*," to advise or instruct—an etymology less obvious than the rest. It arose from a tradition that the first coins were struck in the Temple of Juno Moneta or the adviser. The shekel is a weight, from *sakal*, to weigh; the *stater* has a similar meaning, as also has the *drachma*, with its multiples and divisions; but the original meaning of *drachma* is a *handful*, six oboli being considered a handful, and going to make up the drachma. The *obolus* is a small spike, or nail. In modern times, the terms *cash*, *rapp*, *doit*, *stiver*, used to represent money in general—and in the three last cases very small sums—are, in fact, names of coins all extant. The words gold, silver, brass, tin, have in all languages, and in all ages, been used

with more or less elegance for money, as indicating the material of which the circulating medium was composed; and the devices on coins have served to give denominations to pieces, apart from their actual value; thus we have the crown, the sovereign, the noble, the rial, the écu, or shield, the lion, the eagle, and of old, the owl, the tripod, &c.

The pecuniary transactions recorded in the Bible were all, we can scarcely doubt, effected by means of bullion, the shekel being simply a recognised weight. One remarkable proof of this will be found in the history of Joseph. On the return of his brethren from Egypt, each man, on opening his sack of corn, found his "*bundle of money*," Gen. xliii. 21, in the mouth of his sack. The pictures in Sir Gardiner Wilkinson's work on Egypt show, as we have already observed, that the "*bundles*" of money consisted of rings of silver or gold tied together; and that this custom, or something analogous to it, continued till after the captivity, is plain from the words of Jeremiah, xxxii. 9: "And I bought the field of Hanameel, my uncle's son, that was in Anathoth, and weighed him the money, seventeen shekels of *silver.*" *At this time*, however, there can be little

doubt that coined money was beginning to find its way into Jerusalem.

These passages and several others seem to indicate that silver, ready cut and weighed, furnished the currency of the Israelites during the long period comprehended between the time of Abraham and that of Saul, and that, for a considerable time after, no great change took place, is equally clear; but at what period coined money was introduced it is difficult to say. Up to the time of Saul the value of men and cattle seems to have been computed in "*pieces of silver.*" Gold was probably reserved for personal ornament. Thus we find Pharaoh casting a gold chain round the neck of Joseph; and we hear of jewels of gold, as well as jewels of silver, among the "*spoils*" which the Israelites brought away from their Egyptian captivity.

Of gold used as money we have only one early instance recorded in Scripture, and that as late as the time of David: "He bought the threshing-floor, cattle, and agricultural implements of Ornan, the Jebusite, for six hundred shekels of gold, 'by weight,'" 1 Ch. xxi. 25. It must, however, be borne in mind that the transaction is differently related in the second book of Samuel,

and that the price paid for the threshing-floor and cattle is said to be fifty shekels of silver, 2 Sam. xxiv. 24.

The exigencies of commerce soon required a currency which might pass unquestioned, might admit of subdivisions minute enough to serve for the smallest purposes, and might render imitation, if not impossible, at least a difficult achievement. The common sense of mankind pointed out that sovereignties alone, however constituted, could exercise advantageously the right of striking coins on this principle, and that the security of the public required that it should be committed to no other hands. The piece of metal stamped with the symbol indicating the recognised authority of the State would, as a matter of course, pass unquestioned within the limits of that State, and the counterfeiting it would be severely punished. At the same time, there must be a close approximation between the actual and the nominal value; if the coin be worth much less than it claims to be, it will, in spite of all penalties, be extensively counterfeited, even in fine metal. If it be worth a little more, it will speedily disappear from circulation. And this *approximation* must be very close indeed if the

coin be intended to circulate beyond the State in which it is struck. Thus, the early Athenian silver currency passed not only all over Greece, but round all the shores of the Mediterranean. And when the growth and progress of art made the home coinage of Athens so beautiful that it has never yet been equalled, the pieces intended for foreign circulation were obliged to be struck in the same rude archaic form in which they had at first obtained the confidence of barbarous nations.

It is a singular circumstance that, to satisfy a similar requisition in Africa and the remote East, dollars were up to a late period struck in Spain and Austria bearing respectively the dates and portraits of Charles III. and Maria Theresa.

The early materials for coins were gold, silver, and electrum—a beautiful metal, formed by a mixture of gold and silver. It seems at first to have been a natural amalgam and afterwards made by art.

Coined metal was probably an invention of the Lydians, though there is necessarily a considerable doubt on the subject. Herodotus gives the earliest gold coinage to that people, and we hear of no other coins till a much later period. Pheidon, of Argos, according to the Parian Chronicle, first

coined silver in the island of Ægina. But the date of this is very uncertain; according to the marble at 895 before Christ; according to Böckh, Clinton, and Müller, from 783 to 744; and according to Grote from 770 to 730. If we take the first of these periods, and suppose Pheidon to have been the inventor of coinage, then the art will be coeval with the reign of Jehoshaphat; if the last, with that of Hezekiah. The question of priority between Lydia and Greece is one which is never likely to be accurately decided. We, however, judge the earliest coins extant to be of about the eighth century before the Christian era. Whether of gold or silver, they are mere shapeless lumps of metal, having on the obverse some design more or less rude and archaic in character; and on the reverse, one or more cavities, being the impression or impressions of a punch. It is by no means improbable that Crœsus struck gold coins, and that some of the gold coins found about Sardis may be of the coinage of that wealthy monarch. These were called *staters*, from a Greek word signifying "*a standard*," and the term was afterwards applied to all coins in gold of the size and weight corresponding to the drachma, and in silver to the tetra-drachma.

It will be unnecessary to dwell longer on the de-

nominations of coin, and its employment in ancient times; a few words on the base coins of modern Europe will conclude this chapter. Faith has not always been kept with the public in the matter of coinage. In many countries the currency has been depreciated to an extent disgraceful to the government which perpetrated the fraud, and to the age in which it was tolerated. In our own country, the reigns of Henry VIII., Edward VI., and Mary were signalized by this barbarous and dishonourable expedient. Elizabeth, while she abolished it in England, continued it in Ireland, but from the time of James I. the currency of this country has always been of good metal, as it was from the first coinages of the Anglo-Saxon kings to the latter end of the reign of Henry VIII.

Until recently, Germany was the chief offender in this respect; but one of the first results of the Franco-German war has been to enable Germany, by the assistance of the enormous war indemnity of 5,000,000,000 francs now in course of payment by France, to establish a gold coinage, and to place the silver coinage upon a satisfactory basis.

CHAPTER III.

OF PAPER-MONEY—CREDIT—COMMERCE AND ITS NECESSITIES.

Advance of Commerce—Features of a New Era—Navigation and Discovery—Transfer of Debt—Bills of Exchange—Mercantile Credit—Public Credit—Theories of Commerce—Paper Money—Imports and Exports—Balance of Trade.

WHEN the great step had been taken of establishing a metallic currency, it seemed as if all the possible requisitions of commerce were provided for, and for a while, indeed for many centuries, nothing more was needed; but as in process of time the necessities of trade advanced, as distant lands were brought within the sphere of mercantile operations, more especially after a way had been found to India, round by the Cape of Good Hope, and America had been added to the dominions of trade, the old mode of exchange by means of metal coins proved insufficient. It will be clear too, that contact with an older, though more imperfect civilization, must have had some effect *on the* commercial operations of Europe. India

and China no doubt exercised their influence, while the impulse given to enterprise and speculation was increased tenfold by the Reformation, and the invention of printing. The whole world was wakened up to the life of a new era, and Portugal, Spain, and Venice took the lead in the mercantile operations of the rising age. Then it was that paper-money was felt to be the currency which the time required. Book-keeping became a science, and commerce assumed her due place in the agencies of civilization. The first and simplest operation, according to the new system, was the transfer of debt; the making a simple acknowledgment of a debt from A to B, a negotiable instrument. It is impossible to say at what time this simple transfer became common; isolated instances must have taken place at a very early period; but it required a large commercial community, of which the chief members were well known one to another, to make what may be called a credit circulation possible.

The purchase by gold or silver is a reliance on the actual wealth of the individual, and in point of fact is but a barter of one commodity against another of equal value, but more convenient bulk; but if A says to B, I will give you an ac-

knowledgment of my debt to you, and will pay you at the end of three months, and in the meantime you can transfer the acknowledgment to another person, and thus have the same advantages as though I had paid you; we have the introduction of a new system.

Now, if under these circumstances A is sufficiently well known to make his acknowledgment of equal value with the actual sum, we have all that is required, so far as he is concerned, to establish a paper currency. There are hundreds and thousands of men so thoroughly known in all commercial circles at the present time, that their acknowledgments pass through the mercantile world as money. The general credit of all these collectively, makes up what is called *mercantile* credit—add to this, faith in the honesty of governments and the resources of nations, and we have what is commonly denominated *public* credit.

The common system of shopkeeping is one of the simplest forms of ordinary credit; it is very ancient, and is hardly susceptible of much improvement. It is inconvenient for those who require continual but moderate supplies to pay cash for all the small articles they want at the *time of sending* for them; it would be still more

inconvenient to be obliged to purchase in large quantities. Thus the shopkeeper became a distributor and at the same time a creditor, and the consumer a debtor, the profits of the shop in the first place being measured by the difference between the wholesale and the retail prices of the commodities dealt in. The shopkeeper therefore sells his time and labour, and expends capital in the keeping up of his shop and in all the minor expences connected with it, receiving the above-named difference as his payment, and setting the credit given by him to his customers, and that received by him from manufacturers and wholesale dealers, the one against the other.

From this simple form of credit we advance upwards till we come, by easy transitions, to operations involving millions of money, and the names and reputations of the greatest capitalists.

On this public credit the members of the mercantile class draw, and on the whole the system is found to work well, to supply all the requisite facilities for carrying on the world's business, and to be accompanied by (comparatively speaking) so few failures, as not to give cause for any harassing suspicion. It is understood that honesty is the best policy, and most men know that others

understand it to be so. Frauds, forgeries, and failures always will occur, but their proportion is small compared with the amount of *bonâ fide* business, and the best authorities are of opinion that the proportion is rather on the decrease than otherwise. Indeed the great advance in the means of communication which modern times supply is in itself a hindrance to fraud. Science is employing its powers as well to repress as to forward it, with this difference, that the effects of science in this respect are permanent for good and transient for evil. Newspapers, the telegraph, photographs, and many other ways of conveying intelligence, are every day more and more used. Publicity is recognised as one of the chief requisites of commerce. The *value* of a bill bearing the names of Baring or Rothschild depends upon the actual solvency of those capitalists, but its *usefulness* depends on the general knowledge which mercantile men have of their solvency. Were a series of misfortunes to occur to a man of such a class, so far as these misfortunes were extensively known, so far his credit would suffer and his bills be less negotiable; yet it might be that every one of these instruments would have precisely the same *real value,* and be paid at the time when it became

due without the slightest delay. A credit circulation requires constant publicity, and can only exist where the fullest liberty of communication exists likewise.

The foundation of all commerce is the desire to obtain profit by buying commodities and selling them again at a higher price, and the assumption that this desire is always present, and that commodities will always be purchased as cheaply and sold as dearly as possible is the basis of all theories of Political Economy.

Although to some minds this principle may seem in the highest degree sordid, and unworthy of an enlightened civilization, yet, when intelligently examined, it will be found to be productive of great material benefit to mankind. To buy in the cheapest and sell in the dearest markets means to take from one portion of the community a surplus commodity held in small esteem, and to hand it to another portion, by which it is desired and eagerly received; and the effect of this is to prevent great inequalities of prices in different districts or countries—in fact, to cause the whole world to be supplied with goods at the lowest possible prices.

In order to promote this desirable object, it is essentially necessary that the means of communica-

tion between one country or district and another be developed to the utmost extent, and that all artificial restrictions on trade (unless for the purpose of raising revenue only) be entirely abolished.

The marvellous system now existing of communication by means of Telegraphs, Railways, and Steamers, has effected wonders towards the equalization, in every country, of the price of the products of the globe, and the gradual development of free-trade principles, although they are still unfortunately a stumbling-block to many in other respects eminent statesmen abroad, have rendered still further assistance. After the lapse of even so comparatively short a time, it seems incredible that as recently as the year 1816 the importation of foreign wheat into this country was absolutely prohibited when the price here was less than eighty shillings per quarter!

A wise legislation has now removed this artificial increase in the cost of the staff of life, and imports of all breadstuffs into this country pass free of duty.

The great instrument of modern commerce is the Bill of Exchange, and this is described as follows by *Mr.* Gilbart:—

"A bill of exchange is a written order from one person to another, directing him to pay a sum of money either to the drawer or to a third person at a future time. This is usually a certain number of days, weeks, or months, either after the date of the bill, or after sight; that is, after the person on whom it is drawn shall have *seen* it, and shall have written on the bill his willingness to pay it. The party expresses this willingness by writing on the bill the word "*Accepted*," and his name. If the bill be drawn after sight, he also writes the date of the acceptance."

Besides their utility as a means of transferring money from one place to another, bills have the following advantages:—

They are a means of transferring debts from one person to another. If I owe a man £100, and another man owes me £100, I will draw a bill for that amount on my debtor, and give it to my creditor. I have thus transferred the debt from my debtor to my creditor, and my own debt is liquidated. My debtor, instead of paying me the money he owed me, will pay it to the holder of the bill. My creditor will now look for payment to my debtor, and consider me simply as a *guarantee for* the payment of the bill. If he

wishes to make use of the bill, he will again transfer the debt to another party, placing his own name on the bill as an additional guarantee. The bill may thus pass through a variety of hands and liquidate a great number of debts, before it becomes due. When due, it will be paid by the acceptor who was the original debtor, and all these intermediate transactions will be closed.

Bills fix the period for the payment of debts, of which in case of litigation they afford an easy proof. A person may have little scruple in putting off a tradesman to whom he owes money, and the creditor dares not be urgent, lest the debtor should no longer deal with him; hence the time of payment can never be calculated upon with certainty. But if the customer has given a bill for the amount he owes, that bill may pass into the hands of other persons who will be more peremptory in demanding payment, and whose applications cannot be disregarded with impunity.

Bills afford an easy mode of giving a guarantee. A person may wish to borrow money of me, and I may be unwilling to lend it to him, unless he procure a more wealthy person to guarantee the repayment at a given time. If he have a friend that *will do this,* the most easy way of effecting the

guarantee is by means of a bill drawn by the borrower upon his friend. This, in point of security, is the same thing as a letter of guarantee; but it has also this additional advantage, that if I should want the money before the time fixed for its repayment, I can get this bill discounted, and reimburse myself the money I have advanced. Bills of this description are called "accommodation-bills," or "wind-bills," or "kites." When employed only as a means of affording occasional assistance to a needy friend, or for raising a sum of money for a short time, to meet an unexpected call, they do not appear to be very objectionable. But when they are systematically used as a medium for borrowing capital wherewith to trade, the practice is much to be condemned; for the borrower, being tempted in a greater degree to hazardous speculation when he trades with the money of other persons, than when he does so with his own, he almost invariably in the end brings severe loss, and sometimes ruin, on both himself and the lender.

A curious anecdote is related of an eminent judge, now deceased, illustrative of these terms. When yet a junior, he had to refer to some questionable proceedings of this kind, and observed "Now, gentlemen of the jury, the unfortunate

defendant had been amusing himself by flying kites."

"Doing what?" interrupted the judge.

"Flying kites, my lord—putting his name to accommodation-bills."

"Why are they called kites?" inquired the judge.

"Why, my lord, as in the case of schoolboys' kites, there is a connexion between the kite and the wind—only there the wind raises the kite, and here the kite raises the wind."

The superiority of the mode of making remittances from one country to another by means of Bills of Exchange over the costly, laborious, and unsafe method of sending actual coins having been admitted, it was easily seen that a currency which would avoid the inconvenience and risk of paying and receiving, even in the same country, considerable sums in heavy coins, would be also an undoubted advantage.

The next step therefore in the progress of financial science was the establishment of a paper currency.

So long as any paper currency is really convertible into actual coins—in other words, so long as it may be exchanged for coin at any moment

at the pleasure of the holder, such a currency cannot but be a most convenient substitute; but when once the fallacious idea is adopted that money (which, it has been shown, is the representative of wealth) can be created *ad libitum* by the mere issue of "promises to pay" without the intention or ability to perform the promises, the financial history of nearly every country testifies that serious confusion and inconvenience, if not actual loss, are the inevitable consequences.

The subject of the paper currency of this country has, during the present century, engaged a large share of the attention of our Finance Ministers and Political Economists, and has given rise to much discussion, dissension, and frequent legislation. While great divergence of opinion has obtained on some points, it has been agreed, as a fundamental principle, that a paper currency should be absolutely convertible, and, towards that end, legal measures were passed providing for the payment of the notes, or promises to pay, of the Bank of England, which form by far the largest portion of the Bank Note currency of the country, and declaring that they are legal tender in England.

The knowledge, therefore, that the Bank of

England Note will be paid on demand, causes it to pass from hand to hand as freely as if it were the gold it represents. The promissory Notes of the Country Banks in England, although not legal tender, are generally accepted with confidence in the respective districts of their issue, this confidence being based on the belief that the issuers are quite able to fulfil their promises when called upon to do so.

We come now to the consideration of what used to be called "*the balance of trade.*" This theory taught, as an axiom, that the advantage of foreign commerce lay chiefly in exports; and that in proportion as these exceeded the imports, in like manner the country became rich; just in the same way as a man who sells much and buys little accumulates money. But this fallacy depends on that already noticed, that money is wealth; were this the case, any government might become rich *ad libitum*, by simply increasing an inconvertible paper currency; but such a government would be soon taught that

> "The value of a thing
> Is just as much as it will bring,"

and that they could not grow rich by multiplying *money*.

Setting aside for the present all the higher advantages of commerce, its power of civilizing and refining, we must look to the actual benefits which it confers on a country; and these will be found to consist in what it brings in, not what it takes out; bullion must be regarded just as any other commodity, and if the whole value of the imports be greater than the whole value of the exports the country must be necessarily a gainer. A few words as to the way in which foreign business is transacted may help the reader to a more accurate understanding of this question. In large operations there is often little, if any, cash payment. A sends from Bordeaux wine to the value of 1000 francs to B in London; B has sent a quantity of cotton cloth to C at Bordeaux, worth £40; A receives the 1000 francs from C, and the transaction is closed; or B may send bills, that is, promises to pay money in France, and A is paid with that which has in like manner been given in payment to B: thus a mercantile transaction in one land is made to balance a similar transaction in another. Even travellers for pleasure often regulate their payments unconsciously in the same way. I go to spend a month with my friends in Spain; I pay £50 into the hands of my banker, who furnishes

me with circular notes; thus I take out of the country neither gold nor silver, but only pieces of paper; for these I receive Spanish gold at Madrid, or Cadiz, or Barcelona, and my pieces of paper are made circuitously to pay for British manufactures exported into Spain.

And here may be a proper place to speak of the doctrine of exchanges. The nature of a bill of exchange has been already explained, but as the bill has to be paid in the currency of the country to which it is ultimately transmitted, it will be necessary to take into consideration the real value of the currency in the two countries. For instance, the Mint regulations of London and Paris agree as to the value of their respective coinages—say that the sovereign shall be worth 25 francs and 22 centimes —and when a sovereign in Paris purchases exactly this sum, and this sum in London purchases a sovereign, then the exchange is said to be *at par*.

But several causes may, and one or more generally do, disturb this equality.

For instance, it may happen that, at a given time, there are more persons in London desirous of making remittances to Paris than *vice versâ;* the result of this would be a competition among the *remitters* in London for the available stock of bills

on Paris, and each buyer would be willing to submit to a slight loss in order to avoid the necessity of sending bullion; in other words, the same amount of pounds sterling would purchase fewer francs, and the rate of exchange would be said to fall. Conversely, when there are fewer persons desirous of remitting to Paris, than those having bills to sell, the latter will compete among each other for purchasers, and must submit to a slight loss; a sum in francs would fetch fewer pounds sterling, and the rate would rise.

From these two examples, it will readily be seen that the rate of exchange can never rise above, nor fall farther below par than that point at which it would pay to remit specie; for the object of the remitter of a bill being to save the trouble and cost of sending specie, he would never pay for the bill a higher premium than the cost of shipment.

The other principal causes of fluctuation in the rates of Exchange, are the rates of Interest prevailing in the respective countries, and the depreciation of the currency of the country in which the bill is payable. These fluctuations, as Mr. Goschen observes in his "Theory of the Foreign Exchanges," are "at once the necessary result and the certain

index of the inequalities which exist in the indebtedness of different countries," and are narrowly watched by the merchant and banker, for on those very fluctuations depend the ebb and flow of bullion, by which in turn the rate of interest is mainly governed.

CHAPTER IV.

OF INTEREST—USURY, AND THE LAWS RELATING THERETO.

Nature of Interest—Its Importance and Lawfulness—Mosaic Laws on the subject—The Canon Law—Mediæval Legislation—Laws of Greece and Rome—English Law—Acts of Henry VIII., Edward VI., Elizabeth, Anne, Victoria—Repeal of the Usury Laws in 1854.

IT is impossible to understand the operations of the Money Market without a complete comprehension of the principle on which money is lent and borrowed. Aristotle* is supposed to have laid it down as an axiom, that as the use of money is only to facilitate barter, it is naturally barren, and the attempt to make money breed money is preposterous and unlawful. The passage is believed to be spurious; but it faithfully represents the public opinion of many centuries. Moses prohibited the taking of interest for money among the Jews, but simply on political grounds. The whole tendency

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* Pol. lib. 1, cap. 10.

of the Mosaic law was to keep the Israelites a pastoral people—to prevent their becoming a great military monarchy like those of Egypt and Assyria, or a great trading community like that of Tyre. But, as if to show that he did not condemn the taking of interest as wrong in itself, he expressly allowed even the Jews to receive it from aliens.* In the middle ages the canon law† made usury—by which was meant interest—a mortal sin, however small the interest might be; and these joint authorities so acted upon the common mind, that the very names usurer and usury became associated with all that is most odious, grasping, and rapacious. Regarded in the light of common sense, all these notions vanish. Interest or usury—for the meaning of the one term is as innocent as that of the other—means simply a fee or reward paid for the use of money for a certain period. The word interest is of later derivation, and signifies that in which we participate, or of which we form a part; usury, a payment for use. The truth of this principle will become clearer still if we exhibit a few analogies. A, B, C, have each £1000. A buys a couple of houses, which he lets

* *Deut. cap.* xxiii. v. 20. † Decret. lib. v. tit. 19.

at £50 per annum each, which income he calls rent; B purchases a stud of horses, which he lets out to riders, and makes thus £100 per annum; C retains his money in the shape of gold, which he lends at £10 per cent per annum. There can be no moral difference in the three transactions. Yet for many centuries two of them would be freely allowed; the last would imperil the liberty, and often the life, of any one detected in it. At the present time a kind of distinction is made in the meaning of the terms. Interest is supposed to mean a reasonable payment for the use of money, and usury an excessive and unreasonable rate of interest. On this ground, when the taking of interest was felt to be necessary and seen to be proper, laws were enacted to prevent its being carried to excess; and the argument by which they were defended may be stated somewhat as follows:—Usurers would take advantage of the necessities of poor men to charge them excessive sums by way of interest, and thus bring about their ruin. They would supply, at the same rate, the means for extravagance of those who possessed landed estates, and so encourage profligacy, and at the same time embarrass landlords, by which means land would be less carefully cultivated, and mischief fall on the whole nation.

These views prevailed in very ancient times. Interest was allowed among the Romans, from the time of Cicero to that of Justinian, at the rate of 12 per cent.; but anything beyond this was disallowed. In the reign of Justinian this rate was lowered, and was made to vary with the rank and means of lender and borrower. In our own country it was absolutely prohibited in the middle ages, and the traffic in money was restricted to the Jews and Lombards. By the statute of Henry VIII. (*anno regni* 37) legal interest was fixed at 10 per cent. The Government of Edward VI., animated by a mistaken religious zeal, revived the prohibition. Elizabeth (*anno* 13) restored the law of Henry VIII., and 10 per cent. continued the legal rate till the 21 of James I., when it was reduced to 8 per cent. During this time the profession of a money-lender was regarded, if not exactly as infamous, at all events as one unfavourable to good repute. The lines attributed to Shakspeare, on John o' Combe, may be taken as proof of this :—

> "Ten in a hundred the devil allows,
> But Combe will have twelve, he swears and vows;
> And if any one ask who lies in this tomb,
> 'Oh!' quoth the devil, 'tis my John o'Combe.'"

Even ten in the hundred was only by the permis-

sion of the devil. Soon after the restoration of Charles II. the rate was further reduced to 6 per cent.; and by the statute of 12 Anne, 5 per cent. was fixed as the legal rate. This statute was called the "Statute against Usury," and was not repealed until 1854.

The entire freedom of money from unnecessary restrictions was probably brought about by a work of the celebrated Jeremy Bentham, the value of whose arguments was more clearly perceived day by day, till the burden of the restriction became too great to be borne. It was observed that other things might be hired, money paid for their hire, and profit accrue therefrom. I hire a house, and I pay interest, or, more strictly speaking, *usury* for it—only I call it "*rent*;" I hire a servant, and I pay usury for him—only I call it "*wages*;" I hire a horse, and again I pay usury—only, in this case, I call it "*hire*." Why should I not in like manner hire so many ounces of gold, and pay usury for it under the name of "interest?"

Gradually, as time passed on, it became evident that the usury laws were defeating their own object—that there was no reason for placing on dealings in money restrictions from which all other commodities were free—and that as surely as any

stringent law was enacted or continued contrary to the interests of the commonwealth, so surely would that law be evaded, to the detriment of the national conscience, and the multiplication of what may be called factitious offences. The usury laws were no exception to this rule: bargains of sale were made of a fictitious character, *post-obit* bonds executed, and obligations entered into, with no other object than to furnish a sufficient recompense for the loan of money under circumstances of more than usual risk. To imagine that usury laws would check extravagance—which was one of the chief objects they professed to have in view—is to display a total ignorance of the frailty of human nature; and they were equally powerless in discouraging speculation. It was therefore with the general approbation of all concerned in monetary transactions, that, at the time mentioned above, they were swept away as relics of barbarism, and capital was left free to find its own level, and to be employed on such terms as the state of the market dictated.

The rate of interest under present circumstances is regulated by the general law of supply and demand.

When the amount of accumulated capital, in the

form of money, available for lending, increases, borrowers are able to obtain the loan of it on more favourable terms, and the rate of interest falls.

On the contrary, when the accumulation of loanable capital diminishes, competition for its use on the part of borrowers increases, and the rate of interest rises.

A general index of the rate of interest prevailing in this country is to be found in the published minimum rate fixed from time to time by the Bank of England for discounting first-class bills having not more than three months to run. It is true that this rate does not always represent the exact rate of the open money market, which, in consequence of the keen competition of rival business firms and companies, is usually somewhat lower, but the Bank of England rate is nearly always a sufficiently accurate indication of the rate ruling here.

An erroneous impression prevails with some persons that the Bank of England has the power, in fixing its minimum rate, to control the money market. Now this is true to a very limited extent only, for the Bank of England is but one of a number of powerful financial institutions, and must adapt its terms for lending money to the ever

changing condition of the money market, or the loss of business and profit would be the inevitable consequence.

A great amount of reasoning was expended on behalf of the usury laws, none of which would bear any close examination. So far as the necessities of the spendthrift were concerned, it was clear that so long as he had anything like security to give, so long he would be able to obtain money on the strength of it, and so long means would be found to make the lending of money under such circumstances a source of exorbitant profit. It was but a nominal protection that the amount of interest was limited to 5 per cent., when the lender had the option of selling pictures by the "old masters," consignments of paving-stones, or hogsheads of "genuine sherry," as essential parts of his bargain: the real interest in many such cases amounted to 60 or 70 per cent., and not unfrequently took the unfortunate borrower by surprise. The same profit is exacted now, but without the trouble of an unnecessary fraud. "My terms," says a well-known money-lender of the present year, "are 60 per cent.; but then I never trouble my clients. What they require they have,

and the money is paid down on the nail." This is no worse than the old system, and it has the advantage of avoiding all pretence.

Again, it must be remembered that there is no "natural" rate of interest; the rate depends upon the time when, and place where, as well as from whom and by whom, the capital is borrowed.

Capital in new States possessing great natural resources and but a sparse population and few capitalists, is more valuable than in large and wealthy cities where there is a large class of proprietors living on the revenue of their capital, and anxious to invest it to the best possible advantage. Twelve per cent. in California and South America, is as reasonable a rate as 3 per cent. for consols in London at 93. Six per cent. in Italy or Russia bears the same proportion; and 7 per cent. in Egypt, or in the Danubian Principalities. It is on this principle that a larger rate per cent. is paid in America than in Europe; and it is clear that the notion that the usury laws were necessary to the well-being of the agriculturist was founded upon a series of fallacies which, though supported by names so respectable as those of Adam Smith and Hume, were unable to resist the flood of

light which Jeremy Bentham poured upon them. They had never been brought to the test of experience, and, like many other theories of a similar nature, as soon as the experiment was tried, the old doctrine disappeared, and the wonder was that it had been able to hold its place so long. On the other hand, it became evident that, while the agricultural interest was not benefited, the commercial and manufacturing elements were greatly prejudiced by the existence of these laws. It is one of the chief requisites of commerce that capital should be obtainable at the cheapest possible rate, and the only way to secure this is to free it from all needless restrictions. If capital cannot be made remunerative at 5 per cent., those who need it must give 6, 7, 8, 9, or 10; and if this be prevented by legislative enactments, one of two results must follow; either the capital will not be lent, in which case commerce will proportionately suffer, or it will be advanced in a circuitous manner, perhaps at a still higher rate in order to cover the extra risk, causing an infraction of the law, in itself an evil of no small magnitude.

On all these grounds it was resolved, in the year 1854, that the usury laws should no longer

retain their place in the English Statute-book. They were repealed with the approbation of the most enlightened portion of the mercantile community, and no enactment of modern times has been more completely justified by the result.

CHAPTER V.

BANKS AND BANKING—PRINCIPLES AND PRACTICE.

Origin of Banking—Seizure of Money by Charles I.—Objects and Advantages of Banking—Early Theory of Banking—How Enlarged—What Business is Proper for a Banker—Causes of Failure.

THE practice of banking arose in the first place from a feeling of insecurity as to the safe keeping of money. In the seventeenth century merchants sent it to the Tower, fancying it safer there than in their own strong boxes; but on this point, as well as on several others, they were undeceived by Charles I., who, having been refused a loan by the City of London, seized upon £200,000 lodged by merchants in the Mint (which was then established in the Tower), and compelled them to consider the robbery as a loan. The first banks were merely banks of deposit; but soon they began in one way or another to utilize these deposits, and to issue notes on their own authority.

So long as they did not go beyond this first in-

tention, banks were at once safe and profitable. They seem to have been known in ancient times, though we are unable to decide on what principle they were established, or to what extent they carried their operations. Nor is it our object to expatiate upon banking in the middle ages, or in other lands; our limits will compel us to confine our remarks to our own country, and as far as possible to our own time.

The principal objects and advantages to the community, of banking, are twofold. First, it is convenient to those possessed of money, especially to those engaged in business, to provide a place of safety for their spare cash, not actually required immediately, but which may be wanted at an hour's or a moment's notice. Secondly, it is convenient that of the accumulation of such amounts of unused capital, some of them very small, a certain proportion, to be discovered by experience, can, with tolerable certainty, be reckoned upon as not likely to be withdrawn for some time, and can therefore be employed in a reproductive manner by persons who are ready and willing to pay interest for the use of it.

It was, then, an obviously advantageous step in the growth of commerce that one person

should undertake to keep the floating capital of a number of others, and to pay on demand such portions as might be required. The money itself was safer, because the necessary protection was unremitting and sufficient; and it was more economical, because it was quite as easy to hold against robbers a million as a thousand pounds. The merchant had the advantage of making his payments by simple slips of paper, had no anxiety about the safety of his floating capital, a great temptation to dishonesty was removed, and the transaction of business became at once all the easier and all the safer. But, supposing this safe and simple idea reduced to practice, what gain would accrue to the banker? He received from his customers—they were not called clients in those days—certain specific sums, which he was to return without deduction. He would have in the meantime to keep a staff of clerks, a shop—for so it was then termed—to give up his own time and attention, and to support his family, as well as to make a provision for the future, by his business. To secure this, and thereby give the commercial world the inestimable advantage of the banking system, it was absolutely necessary that the *balances* left in his hands should fructify. Out of

the gain thus produced his profit was to accrue. It was the payment made to him by the merchants and others whom he accommodated.

Thus, then, the business of a banker, "*pur et simple*," becomes clearly defined. He is to be always ready to answer any demand made on him to the extent of the deposits which he has received. But, as we have seen, these demands would be limited to a tolerably well-defined proportion of the deposits, and except under extraordinary circumstances, it would be sufficient to keep in hand cash to the extent of say one-fifth, or one-tenth of the amount of the deposits to meet probable claims at any one time. The remainder, therefore, of the money in his hands could be employed so as to produce a profit to himself, but it must be lent for short periods only, or invested in securities easily and rapidly convertible, and not subject to any great fluctuation in the market. If this rule were attended to, the failure of a bank would be practically an impossibility, save only in the case of a long-continued and violent panic—and then it would be highly improbable. Let us, for instance, suppose a bank established in England by Messrs. Slowboy and Safe. They receive deposits from their customers

to the extent of say one million sterling; they keep a prudent proportion of this in hand, in cash, to meet probable sudden demands made upon them, and invest the rest in Government securities, and thus there will accrue a large gain; if the signs of a panic appear in the mercantile horizon, it would certainly in the first place affect houses of an inferior position; so that Messrs. Slowboy and Safe would have ample time to prepare for the storm. Moreover, their securities being of the highest order, easily and rapidly convertible into cash, and seldom affected to any ruinous extent by the fluctuations of the market, they would "ride out" a long pressure with scarcely any injury, and their depositors would suffer no loss. When the panic passed away, they would reap the advantage of their prudence in an increase of business.

This is the simplest, if not the earliest, *theory* of banking; and if rigidly adhered to, would warrant the query: What business has a bank to break? But it was hardly to be expected that a system so simple, even if ever reduced to practice, could remain in its simplicity. We have supposed two partners, and both devoted to their business as bankers. Now let us add another element, which, even in the earliest days of banking, was rarely ab-

sent; that of separate and independent business. Mr. Slowboy is a brewer—a very common combination; he uses the money of the depositors in carrying on the business of his brewery; and he does this the more easily if Mr. Safe be a partner in this concern also. This is a deviation from the principles laid down in the first place; for no one will contend that it is the same thing for the depositor to have his property dependent on the national credit, and to have it contingent on the credit and solvency of two gentlemen, however wealthy and upright, concerned in the manufacture of beer. However, if the brewery be carried on well and prudently, it may be safe enough; and the partners, aware of their ability to meet all demands made upon them, may be held excusable for strengthening one of their trades by means of the other. They are, nevertheless, under a comparative disadvantage in case of a panic; and their example might be pleaded and followed by Messrs. Slap, Dash, Hazard, and Crasher, who have joined half-a-dozen new and untried modes of business to their original one of bankers. We proceed, then, to the third step—that of hazardous business. And to this, and to what may be denominated over-trading, we attribute the fall of so many banking establishments.

But here it will at once be evident that business which is perfectly safe and legitimate for a merchant or a financial company, may be in the highest degree unsafe for a banker. The banker's securities must be not only good, but easily realizable; they must be capable of being converted into cash at a very short notice. And at this point it is that the actual history of banking commences. The Jews were the first who had the honour of being called bankers; but in the sense of the word which has been explained above they had small right to the appellation. They were pawnbrokers and money-lenders, as were the Lombards, who came after them. Then the goldsmiths took the business, and added the keeping of money and the receiving of rents, and other sources of income, and subsequently the circulation of notes, which were called goldsmiths' notes, the forerunners of our present bank-notes. As years rolled on, the trades of the goldsmith and the pawnbroker became dissevered from that of the banker, while those of the money-lender on land and monetary securities remained. Among these securities, bills of exchange soon formed an important item, and thus the banker became a bill discounter. Indeed, very high au-

[redacted]*rities have* declared that the only legitimate use

to which he can put the money confided to his care is by thus employing it.

From this very brief sketch of the theory and practice of banking, it is evident that so far as the element of risk can be eliminated from any business, it should be especially from that of a banker. If he be a man of business, having a knowledge of business men, of the state of the money-market, and of the doctrines of monetary science, he can scarcely go very far wrong.

But it may be asked, if the business of a banker be so simple and its principles be so sound, why is it unfortunately no uncommon thing to hear of banks becoming insolvent and stopping payment?

The answer is, that in almost every instance of failure, it arises from neglect of the most ordinary precautions, from violation of the most universally recognised rules. What, for instance, can be more distinct, nay, more incompatible than the business of a banking and that of a finance company? The latter professes to supply money for great undertakings, such as would be impossible for individuals, and which do not in most cases offer a rapid return. They depend for their success on the development of a country's resources, on the prosperity of a town not yet built, on the return

from mines not yet worked. These are legitimate objects for a finance company, but it is self-evident that they are not securities on which money should be advanced by a bank. They may be infinitely more profitable, but they are out of the proper line. They take too much time to fructify. A new Dock, Railway, or Canal may be a most lucrative speculation, but for their profits the speculators must wait till the works are completed and the returns come in, and for this again they must wait till the additional commerce expected has developed itself. A railway across a chain of mountains may create a trade which shall abundantly repay the shareholders; but before they can expect a dividend from such a source, the source itself has to be called into existence. Such properties are extremely valuable, if they have time to ripen; but if, in an undeveloped state, a sale of shares be forced, the losses must be enormous.

Let us then imagine—unfortunately no mere imaginary case—a bank either advancing large sums on such security, or what is the same thing, aiding a finance company so engaged. A period of panic comes, a "run" takes place on the bank—the shares of the inchoate undertaking are

unsaleable—they fall to a heavy discount—are given away—money is even paid to those who will take them gratuitously—the bank is obliged to close its doors; a most useful work is brought to a dead stop, hundreds of families are ruined, and a good business destroyed, simply because the great fact has been lost sight of, that a banker's securities must be such, and only such, as can be readily turned into cash. But again, the very deposits which are particularly suited for the banker are in the highest degree unfitted for a finance company. Deposits of money to be paid on demand, or at short notice, are for such companies an abundant element of peril. Let there be a rumour, no matter how incorrect, that the town, the mine, the railway, or the manufactory, is in an unsatisfactory state, forthwith the depositors rush to the offices of the company to claim their money; and if the company has been so imprudent—we might, without much exceeding the bounds of truth, say so unprincipled—as to receive many such deposits, its securities will be forced into the market, and the result will be a "winding-up of the concern." Deposits on call or at short notice should be made with bankers only, and these, on the other hand, should carefully abstain from such business as be-

longs to finance companies. The panic of 1866 showed that both these rules have been systematically neglected, and hence no small part of the disturbances which have convulsed the money market.

Of the issue of notes, the business of discounting, and the employment of capital, we shall speak in subsequent chapters.

CHAPTER VI.

THE BANK OF ENGLAND AND ITS CHARTER.

Origin and Objects of the Bank of England—Its Early Success—Suspension of Cash Payments—The Restriction Act—Lord Stanhope's Act—Peel's Act of 1819—Ditto 1844—Opinions thereon.

THE establishment of the Bank of England marks one of the most important periods in the monetary history of this country. It was, in the first place, a political act, and its object was to furnish the then sovereign, William III., with money to carry on those wars in which he was engaged. The plan adopted was that of William Paterson, and it provided that, by an Act granting to their majesties (William and Mary) several duties on the tonnage of ships and vessels, and upon ale, beer, and other liquors, certain recompenses should be made to such persons as should voluntarily advance the sum of fifteen hundred thousand pounds for carrying on the war with France. This sum was to be raised by subscription, and

the subscribers were to form a corporation, and to be called "The Governor and Company of the Bank of England." This whole capital was to be paid over to Government, which was to pay £96,000 per annum as interest, and £4000 for management. The new corporation obtained a charter, which entitled it to borrow and lend—not to deal in merchandise, except to sell that on which money had been borrowed, and not repaid—and to traffic in bills of exchange and bullion. The plan was popular, the list of subscribers was filled in ten days, and the new corporation issued its prospectus, and announced itself ready to issue notes, and to transact all other business. The restriction on the privilege of the Bank is exhibited by a clause prohibiting it from borrowing or owing more than the amount of its capital, and by making the individual members of the corporation liable to the creditors in proportion to the amount of their stock, if any such over-issue or over-borrowing took place. This charter was to be valid till 1705; it was then extended to 1710; and from that period it has been renewed from time to time till the present day. The stock of the company was exempted from all rates, taxes, assessments, or

impositions of any kind whatsoever; and forgery of its notes, bills, seal and was declared felony. It was in addition to all these privileges enacted, that the corporation should continue in the enjoyment of this charter till the debt which the public had thus contracted with the Bank should be paid off. This charter bears date July 27th, 1694.

In the year 1708, an Act was passed prohibiting the formation of any other similar corporation; many such had been proposed by the Tories, for the Bank was a Whig project, and had been eminently successful in supporting the leaders of the party in the prosecution of the war. This, as it had excited the warmest feelings of joy and congratulation among the friends of the party, had also created bitter rage and indignation among their political enemies. Defeated in their endeavours to establish a rival corporation, they abandoned the design, and it has never been seriously entertained since. From that period the Bank has gone on lending the Government, at various periods, large sums of money, until in the year 1816 the debt to the Bank from the Government amounted to nearly twelve million pounds sterling. In the course of its progress the Bank became the Government agent in paying all dividends on account of the National

Debt, and, generally speaking, managing all concerns connected with it. It will be unnecessary to pursue more minutely in this place the annals of this great corporation until we arrive at the year 1797. Three years previously to this the Bank had issued five-pound notes. In the year 1797 a panic occurred, and a great run upon the Bank took place. It was apprehended that great mischief would occur if a drain of bullion were occasioned by this; and an Order in Council appeared, prohibiting for a temporary period the payment of bank-notes in gold. This suspension of cash payments was sanctioned by public opinion; and important meetings were held to express confidence both in the Government and the Bank. On May 3, in the same year, the celebrated Bank Restriction Act passed; this confirmed and regulated the Order in Council, and the restriction was continued from time to time till the year 1819. During this long period the country passed through several monetary crises. The circulating medium had become deplorably deficient; it became necessary in 1777 to prohibit country bankers from issuing notes under £5, but this Act had to be repealed in 1798; and country bankers issued vast [illegible]*antities* of one-pound notes. The silver cur-

rency was wholly insufficient for the requirements of commerce; and the Bank took upon it the office of the Mint, and recoined a large issue of Spanish dollars, besides silver tokens of various values, for England and Ireland. The copper coinage was in an equally unsatisfactory state, not a tenth part of the currency was legitimate, and every town and a great number of private persons struck their own pennies, halfpennies, and farthings. In 1797, a new copper coinage appeared, and another in 1805-6; but the Royal Mint coined no silver till 1816—a piece of neglect on the part of the Government for which it is difficult to find any excuse. In fact, at this period of our history the nation was in a decidedly unprosperous condition: the National Debt was increasing, prices were rising, and at the same time the working-classes were in a state of great distress and chronic discontent.

In the year 1810, the mischief seemed to have reached its height, and the Government were called upon to consider what share in the public distress was to be attributed to the continued suspension at the Bank of cash payments. A commission was appointed, but while it was admitted that an early return to cash payments was desirable,

the Parliament did not act upon the recommendations of this report; and soon afterwards an attempt was successfully made to force the reception of bank-notes as equal to gold in all payments whatsoever. This attempt is usually known as Earl Stanhope's Act, because the bill was brought into Parliament by that nobleman. He had accepted Mr. Vansittart's theory, that bank-notes had not depreciated in value, but that gold had advanced, a fallacy which has lately been greatly current in America. Holding this notion, he proposed to make it a misdemeanor to take gold coin at more, or bank-notes for less, than their nominal value. The Act is said to have been determined on in consequence of a notice issued by Lord King to his tenants, and which we give entire, as exhibiting the mode of argument adopted at the time:—

"By lease, dated 1802, you have contracted to pay the annual rent of £47 5*s*. in good and lawful money of Great Britain. In consequence of the late great depreciation of paper-money, I can no longer accept any bank-notes at their nominal value in payment or satisfaction of an old contract. I must therefore desire you to provide for the payment of your rent in the legal gold coin of the

realm; at the same time, having no other object than to secure payment of the real intrinsic value of the same, stipulated by agreement, and being desirous to avoid giving you any unnecessary trouble, I shall be willing to receive payment in either of the manners following, according to your option:—By payment in guineas; 2nd, if guineas cannot be procured, by a payment in Portugal gold coin, equal in weight to the number of guineas requisite to discharge the rent; 3rd, by a payment in bank-paper of a sum sufficient to purchase (at the present market price) the weight of standard gold requisite to discharge the rent. The alteration in the value of paper-money is estimated in this manner: the price of gold in 1802, the year of your agreement, was £4 an ounce; the present market price is £4 14*s*., arising from the diminished value of paper. In that proportion an addition of £17 10*s*. per cent. in paper-money will be required as the equivalent for the payment of rent in paper."

This Bill passed, and was re-enacted from time to time along with the Bank Restriction Act.

But the time was now approaching when both these Acts were to fall together. In 1817 the Bank announced its intention of paying some of its

financiers, and has since, and even down to the present time, given rise to much discussion and wide divergence of opinion.

The Act, in extending the charter till 1855, or the expiration of twelve months notice thereafter given by the Speaker of the House of Commons to the Governor of the Bank, provided:—

That the issue of notes should be thenceforward kept entirely distinct from the other business of the Bank, and conducted in a separate department, to be called the "Issue Department;" that notes should be issued to the extent of £14,000,000 against the security of the debt due by the Government to the Bank, and to the further extent only of whatever gold coin or bullion might be in the possession of the Issue Department; that the Bank should be bound to issue notes to all persons in exchange for gold bullion at the rate of £3 17*s.* 9*d.* per standard ounce; and that the circulation of the existing banks of issue should not exceed the average of the twelve weeks preceding the passing of the Act. The Act also made other minor provisions, which do not bear upon its general principles.

The main objects of Sir Robert Peel in this Act, *were to throw* gradually the whole power of

issuing notes into the hands of the Bank of England, and to insure that the Bank of England note should be at all times convertible into the gold which it promises to pay.

His views may be gathered from the following portion of his speech on introducing the Bill:—

"It is proposed that the Bank of England shall continue in possession of its present privileges—that it shall retain the exclusive right of issue within a district of which sixty-five miles from London as a centre is the radius. The private banks within that district which now actually issue notes will of course be permitted to continue their issues to the amount of the average of the last two years.* Two departments of the Bank will be constituted—one for the issue of notes, the other for the ordinary business of banking. The bullion now in the possession of the Bank will be transferred to the Issue Department. The issue of notes will be restricted to an issue of £14,000,000 upon securities, the remainder being issued upon bullion and governed in amount by the fluctuations in the stock of bullion.

If there be under certain defined circumstances

* Afterwards altered to twelve weeks.

an increase in the issue of securities, it can only take place with the knowledge and consent of the Government, and the profit derivable from such issues will belong to the public. Bankers now actually enjoying the privilege of issue will be allowed to continue their issues, provided the maximum in the case of each bank does not exceed the average of a certain prescribed period. A weekly publication of issue will be required from every bank of issue; the names of shareholders and partners will be published. No new bank of issue can be formed, and no joint-stock company for banking purposes can be established except after application to the Government, and compliance with various regulations which will be hereafter submitted to the consideration of Parliament."

As has already been stated, it is admitted by all financiers that it is especially desirable that the convertibility of the note shall be at all times maintained, and the Act of 1844 secures this to an extent which is practically complete.

But the opponents of the Act assert with considerable force of argument that this result could have been effected as well without the Act as with *it.*

In reviewing the provisions of the Act, Dr. Leone Levi, the well known Professor of Commercial Law, &c. at King's College, London, who may be taken as representing the Act's opponents, states as follows:—

"It is not the function of the Government to demand security for the payment of common debts, or to guarantee the right working of the foreign exchanges.

The making of Bank of England notes legal tenders in 1832, a measure which expediency alone had prompted, strengthened the erroneous assumption that bank-notes are money.

It would have been better to have retraced that step, and to have left the question of securing the convertibility of bank-notes into cash just as the Bullion Committee left it in 1810—on the responsibility of the issuers themselves. This was the only safe and intelligible position for the legislature to take. As to any attempt to regulate the currency by law, it must be practically useless, for we are not agreed on what the circulation consists of; and certainly it is useless to deal with one species of credit, such as bank-notes, whilst others, such as deposits, cheques, and bills, which are of much greater magnitude, remain untouched. To

fix the amount of the uncovered issue of the Bank of England at the sum which perchance happened to be due by Government to the Bank, was altogether arbitrary and unphilosophical.

To fix the amount of the uncovered issue of country banks, or of the Scotch and Irish banks, at the sum which happened to have been issued on a certain number of weeks in 1844, was likewise based on no solid foundation. Having once dismissed the idea of having only one bank of issue throughout the country as impracticable, there was no reason why the Bank of England should have had the sole privilege of issue in London. It would have been far better to have abolished the privileges and monopoly of the Bank of England, to have paid the debt due to the Bank, and to have placed the Bank of England on the same footing as any other bank. In the long run it will be found that free banking will prove quite as beneficial as free trading."

It is considered then, by the opponents of the Act, that although the convertibility of the note is secured by the Act of 1844, it is effected at too great a cost, and that inasmuch as the rigid provisions of the Act have rendered its suspension necessary on three occasions of panic, when fear

caused a sudden and large demand for notes to provide for real or imaginary contingencies—a larger demand than it was in the power of the Bank of England legally to supply—then the Act itself is a blunder, and ought to be expunged from the Statute Book.

On the other hand, the supporters of the Act, among whom are to be found many of the leading practical bankers of the present day, rejoin that the very word "panic" implies an unnatural state of things, impossible to be legislated for, and capable only of being met by exceptional and stringent measures, and that on the whole the Act has been found, after an experience of nearly thirty years, to work well.

It is probable that the time is not far distant when the subject will receive the attention of Parliament.

In the meantime it must be admitted that the direction and management of the affairs of the Bank of England have always been placed in the hands of men of the highest ability and probity, who have raised the reputation of the institution in every city in the world to a height unequalled by any other bank, and have rendered the very name of the Bank of England synonymous with the utmost stability, strength, and security.

As we have already seen, an Act of Parliament was passed in 1708 providing that, during the continuance of the Bank Charter, no other corporation or partnership, consisting of more than six persons should "borrow, owe, or take up any sum or sums of money on their bills or notes, payable on demand, or at a less time than six months from the borrowing thereof;" and this monopoly continued in England for more than a century. It may be here mentioned that the charter of the Bank of England had no reference to Scotland, which at the time it was granted was a separate kingdom; hence, as the wealth of Scotland increased, joint-stock banks were formed, and now conduct the whole of the banking business of that portion of the United Kingdom.

But the time at length came when this monopoly was to be swept away. After the terrible commercial catastrophe of 1825, when seventy banks, principally country banks, failed within the short period of six weeks, it was found that the trade of the country was suffering great inconvenience from the dearth of banking facilities, and it became necessary for the Government to press upon the Bank of England the propriety of establishing

branches of its own body in different parts of the country, and of giving up its exclusive privilege as the sole joint-stock bank, except within a certain distance (which was afterwards fixed at 65 miles) from the metropolis. The directors were at first unwilling to establish branches, but they ultimately acceded to both the propositions of the Government, and several Acts of Parliament were passed carrying them into effect.

It was in virtue of these Acts that the first joint-stock banks were established in England and, as there was no restriction to the contrary, they issued notes of £5 and upwards.

In the year 1833, when an Act was passed renewing the charter of the Bank of England, provision was made permitting joint-stock banks to be established in London and within 65 miles thereof, on condition that they did not issue notes payable on demand. Under this Act the London and Westminster Bank, the London Joint-Stock Bank, and the Union Bank of London were established; and the present splendid position and world-wide reputation of these three institutions, whose united liabilities exceed £68,000,000, or nearly four times the amount of the private

deposits of the Bank of England, afford a standing proof, if one were required, of the folly and indeed criminality of such monopolies as that of the joint-stock banking business formerly enjoyed by the Bank of England.

CHAPTER VII.

NATIONAL DEBTS OR OBLIGATIONS—ENGLISH AND FOREIGN.

How National Debts arose—Illustrated by Examples—Questions to be Solved—National and Governmental Obligations—Case of Prussia—Case of Virginia—Case of Greece—Supposed Beneficial Effect of a National Debt—the Case Examined.

IN the coming chapters of this work I shall have frequent occasion to speak of the Funds, the National Debt, the public creditor, the rise and fall of various descriptions of Stock, and the multifarious operations of the Stock Exchange.

To make this intelligible we must ascertain what all these terms mean, and treat somewhat extensively on the manner in which nations contract debts, and the modes which they adopt in liquidating them. The *rationale* of such proceedings does not differ from that of ordinary contracts between individuals, and they are of course governed by the same laws of mercantile morality; for that which is morally wrong cannot be politically right, and a swindle does not cease to be a swindle be-

cause it is endorsed by a Minister of State, nor even because the will of a whole nation has concurred in its perpetration. But inasmuch as there are certain differences between the manner in which the individual gets into debt, and that in which the nation does so, we will just state in the plainest way possible the position of the State and the Fund-holder respectively at the present time, and with regard to our own country. We owe a great debt called the National Debt. Some think it a heavy weight about the neck of the people, others consider it rather an advantage. It is doubted whether it ought ever to have been contracted. These points will be brought out in the discussion of the following questions:—

Who is the public creditor?

What is the nature of his claim?

Is it, or is it not, founded on strict justice?

Is there any probability of its repayment?

National debts, our own among the number, are contracted in the manner following:—Some cause requiring larger expenditure than usual, generally war, renders the income of a Government inadequate to its requirements, and that to so great an extent that additional taxes *cannot be* imposed to meet the urgency of the

case. Under these circumstances, the Government negotiates a loan—the State borrows money precisely in the same way as any private individual would, offering that rate of interest requisite to insure the obtaining the needful sum, and giving the creditor security on the public revenue.

The sum thus borrowed, and for which interest is paid, is usually called the "Funds," or "Government Securities," neither of which terms is precisely applicable; for the money itself does not exist, nor do the securities bear the same relation to that for which they are "securities," as do other documents bearing the same name.

The National Debt of this country amounts to nearly £800,000,000 sterling. A large part of this enormous sum was expended in the struggle with France under the First Napoleon, the result of which was the destruction of the French Empire, the restoration of the French Royalty, and the settlement of Europe upon what were then called legitimate principles. Not far short of fifty millions were expended in the Crimean War, previous to which the debt had been greatly reduced during the long peace.

Whatever opinions may be held now concerning those events, we think it can hardly be denied that

the creation of the debt was at the time deemed absolutely necessary to the safety of this country, and that it was incurred in conformity with the public will, if not in direct obedience to it. The act was therefore a national act as contradistinguished from an act of the Government.

The persons who at any period of our history have for public purposes advanced money to the Government, or, if it be thought a better mode of expression, have invested money in Government Securities, *were* the public creditors; those on whom by purchase or descent their claims have devolved, *are* so at the present time.

The justice of the claim made and allowed at this time must depend on the joint conduct of the debtor and creditor; and in order to get at this, we must examine the way in which the debt has increased or diminished, and the faith which has been kept in matter of interest to the creditor.

It will be seen that the claim itself is one of very simple character. A says, "My father lent the Government, in his day, £10,000, for which he covenanted to receive 5 per cent. interest; he bequeathed that claim to me, and it has been allowed; but I am only receiving 3½ per cent. for the same." But, on further inquiry, we shall find

that at a particular period the Government stated to A's father, and to all who were in his position—"The value of money is less now than it was when we borrowed it from you: we shall therefore only pay 4 instead of 5 per cent.; but as we are bound by our contract with you, we propose to you either to continue your loan to us on this reduced interest, or to receive back the sum originally paid, and this we will effect by a new loan." A's father accepted the first of the two alternatives; and, by a subsequent reduction made in the same way, he found his interest brought down to 3½ per cent., at which rate an income is now paid to A. Nothing can be fairer than this; some portions of the debt have been paid off, and it is at present rather diminishing than increasing.

But some persons, who fancy that the abolition of the debt would place England in a higher position than that which she at present occupies, have endeavoured to persuade themselves and others that the claim of the fundholder is not founded in justice; and their arguments take the following form:—"The money borrowed was borrowed for the defence of the nation, but as the nation was bound to defend itself, the money ought not to have been *lent*, but *given;* and as the *property* of

the nation was what was in danger, so the defence of it was the especial duty of those who possessed that property; *i.e.*, *the rich*, or, in other words, those who advanced the money in question." The inference from this curiously fallacious argument is, that we have been wrong in paying any interest at all, and shall be still more wrong if we continue to pay it. It amounts, in fact, to this: that A, the nation, borrowed from B, the individual, money to pay B's debts; that, having done this, A pays B a perpetual interest for the money so borrowed. Whereas B ought to have paid the debt, or liquidated the obligation himself, and so terminated the matter.

All this assumes that property was the only thing at stake; the keeping of our national freedom, the preservation of our old laws and religion, our commercial independence, and our colonial empire being entirely overlooked, or regarded only as interesting to the comparatively small body of fundholders. The assumption is entirely erroneous; if the money were borrowed for *national* purposes, the *nation* was bound to repay it, or at least to pay the stipulated interest; and the fundholders, as a portion of the nation, pay a portion of the taxes, whereby their own claim is

satisfied. Thus, as it was the nation which borrowed, so it is the nation which pays. The case may be rendered still clearer by an illustration: A community of thirty persons have need, for their common use, of a sum of thirty thousand pounds—*i.e.*, they want one thousand pounds each. The natural solution of the question is, that each should pay the sum of one thousand pounds, and the common interest be consulted by the common sacrifice.

But when the proposition is made, it is found that twenty-eight out of the thirty are not in a condition to furnish their quota. The business or enterprise in which they are engaged is prosperous, and will well reward them for this necessary outlay; but though the share of each in it is worth much more than a thousand pounds, only two of the thirty are able to furnish the sum of money.

Under these circumstances, the two rich members say, "We will advance fifteen thousand pounds each; but as we are not legally bound to advance more than the fifteenth part of that sum, and our money is worth to us 5 per cent., so the community—*i.e.*, the thirty persons—must tax themselves to furnish the fifteen hundred pounds which will be annually required for interest. In that

taxation we, the advancers of the whole sum, thus take our part, all interests are consulted, the credit of the community saved, and a species of mutual assurance is effected."

This is the exact case with the nation at large and the national creditor.

From this it will appear that the application of the sponge to the National Debt—a favourite nostrum of some political quacks—or the applying the annual interest to liquidate the principal, either of which would constitute an act of national bankruptcy, can be justified only by the same circumstances which justify any private bankruptcy—viz., the ascertained inability to pay either principal or interest.

A national debt contracted under such circumstances as ours was has a double amount of obligation, for it was not only contracted for national objects, but by the clearly and unmistakably expressed will of the nation itself. A debt might have been contracted by the Government of Prussia, for example, to carry on a war with Austria, to annex Holstein and Schleswig, and finally to take possession of the rest of Denmark, and this might be called a *national* debt, but as it would be one the objects of which would, in their own nature, be

unjust and immoral, and would not command the sympathies of the people, a question might arise whether the payment of such a debt would be morally obligatory on any but the government which contracted it. Policy, however, would probably dictate its acknowledgment—at least in Europe; but supposing such a war to be successfully carried out, and the countries named to be annexed to the Prussian monarchy, it would then be competent to the victors to throw the whole weight of the debt on the vanquished, nor would there be any way open of escaping this oppression save by revolt or foreign interference. Similar cases have occurred, and they tend to show that many obligations are called national, and treated as such, when they were in fact only governmental. A very remarkable instance has been exhibited in America. In their resistance to the demands of the North, the Southern States of the great Republic incurred heavy debts, each State on its own responsibility. After the conclusion of the war the victorious party required the repudiation of all these debts as a condition for being permitted again to enter the Union.

According to all rules, alike of mercantile or political morality, this was to compel an act of

dishonesty. If Virginia, on the security of her own state resources, purchased from Liege a thousand muskets, the fact that Virginia was worsted in the contest furnishes no argument against the duty of paying for the arms. It might have been competent for Virginia to say, "I am wasted and desolate, my strife has been in vain, my homes are devastated, my resources cut short, and my prospects blighted—I cannot pay." Had she pleaded thus, all that could have been said in reply might be summed up in the words, "The more's the pity." But she did not plead thus; she would willingly have paid; but the victorious North prohibited this honest and honourable course, and again sanctioned, by the declaration of the national will, the policy of repudiation.

In our case there is no ground for such a proceeding, and, happily for the character of the British people, no desire to recur to it.

Many foreign debts, and notably those of the South American republics, have been contracted by nations in order to achieve their political independence. That of Greece arose in the same way; others have been incurred to carry on works of general utility—to build and adorn cities, to make railways, canals and aqueducts, to construct har-

bours, and to aid in various ways the real interests of the nations who have contracted them. The mode in which such debts are contracted is usually somewhat as follows: The Government desirous of obtaining a loan, applies to a great capitalist, and proposes to him the negotiation. Let us suppose that the Government is that of Spain, and the House of Rothschild be selected for the business. The amount required is stated, and certain valuable quicksilver mines are hypothecated to guarantee payment of the interest, and in due time the principal. Two millions sterling are wanted, and the interest offered is 5 per cent.; but no capitalist will invest on such terms, so he is not asked to pay his hundred pounds, but some smaller sum, say eighty pounds. With that eighty pounds he purchases an obligation from the Spanish Government to pay him £100 in a stipulated time, and in the meanwhile to pay him five pounds for every eighty so advanced. Messrs. Rothschild examine the proposal. They introduce the loan to the notice of European capitalists, and the money is raised.

Now let us look at the position of the holder of this stock. He has paid eighty per cent., and his bonds are to bear interest at five. Suppose him to

have purchased them to the extent of £800 sterling, he will have £1000 in the stock and fifty pounds per annum; thus he will receive 6¼ per cent per annum for his money, and his security will be that the revenues of the quicksilver mines are covenanted to be devoted to the purpose, that is, of course, so long as the good faith of Spain is maintained.

It is unnecessary to say that among foreign debts are found every variety of security, rendering some quite as safe as our own, and stamping others as among the most transparent of impositions. On this subject more will be said in the chapters on the Stock Exchange. I conclude this chapter with a few observations on the much-mooted question, Is the National Debt an advantage to the nation or otherwise? At first sight this would seem to be scarcely deserving of a moment's consideration, for why should a heavy debt, which consumes nearly a third of a nation's income in paying interest upon it, be a benefit to a nation, any more than a similar incumbrance would be to a private individual? However, the theory is still held by so many that it is worth investigating. It is said, then—

First, that the existence of the debt binds the

people to the Government, for if that were overthrown the debt would go with it, and the fundholders would lose their money.

Secondly, that it affords a safe and moderate investment, giving therefore an opportunity for many thousands of persons with small properties of living on their incomes with quiet and security.

Thirdly, that its existence is a warning to Government not to engage in rash wars or extravagant expences.

Fourthly, that it creates a vast amount of business, and thus furnishes employment for many thousand persons.

It is not difficult to refute these arguments, and to show that a state of indebtedness is as much an evil to a nation as it is to an individual. It may be an unavoidable evil, but can hardly, except by a curious perversion of language, be called an advantage. For, taking in order the benefits which it is supposed to produce, we may remark—

First, that the fundholders form a very small minority of the people, and that it is not simply by *their* allegiance that the Government is upheld.

There has at no time been any serious want of loyalty among the people of this country,

and there has always been a great amount of moral rectitude. A Government capable of so far trampling upon the rights of property as to repudiate the National Debt would have no chance of acceptance with a right-loving and law-abiding people; and if, on the other hand, the mere material interests, as understood by themselves, of the great masses were consulted, it is clear that they would prefer a state of affairs which would reduce rather than one which would continue a heavy system of taxation. From these considerations it is clear that the existence of an enormous national debt does not bind the people to the Government.

Secondly, if the Dational Nebt were paid off tomorrow, though there would be a great difficulty for a while in finding investments for persons of small property, yet before long capital would find openings for employment, and affairs would go on with their accustomed regularity.

Thirdly, it may be very gravely doubted whether the supposed effect is produced at all. Most thinking people agree in the need of great retrenchment in the expences of our own Government, and it has never appeared that the fear of adding to our fiscal [illegible]*urdens has* had much efficacy in this direction.

Fourthly, it may be admitted that thousands of persons are employed in various ways connected with the National Debt, and that its abolition would entail their dismissal; but on this ground we might proclaim a pestilence to be a benefit, because it employed a great number of physicians.

On the whole then it cannot be doubted that, provided the steps taken to repay the National Debt were not more detrimental to the prosperity of the country than the existence of the debt itself, the extinction of the debt with its annual burden in the shape of interest would be a great advantage.

CHAPTER VIII.

PUBLIC FUNDS—CONSOLS—EXCHEQUER BILLS, ETC.

The Funds—Consols—Other Government Stock—The Unfunded Debt—Mediæval Loans—Revenue Anticipated—Irredeemable Debt—Acts of Consolidation—Perpetual Annuities—Dr. Price's opinions—Variations in the Price of Stocks—Causes of such Variations.

FROM the Philosophy of National Debts we come to their present condition. Our own debt presents itself to our view in the form of various funds, bearing interest, and serving as investments to many thousands of persons. Taking them in something like the order of their importance, we have—

First, THE FUNDED DEBT, for the payment of the Interest on which a permanent charge is made on the National Revenue. The chief portions of this are—

I. CONSOLS.—This word is an abbreviation of *Consolidated*—the full title of the Stock is the Three per Cent. Consolidated Bank Annuities. It forms by far the greater part of the public debt. It had its origin in

1751, when an Act was passed consolidating several separate stocks bearing an interest of three per cent. The present amount of this stock is about £400,000,000.

The interest upon it has never failed, and as it forms the favourite investment of the nation, it is supposed to be especially affected by all that affects the national interest.

II. Reduced Threes.—The full title of this Stock is Reduced Three per Cent. Annuities. The stock dates from 1757. It consisted, as the name implies, of stocks which had borne previously a higher rate of interest, and whose holders had the option afforded them of being paid off or accepting the lower rate. Most of them chose the latter alternative. It amounts at present to about £102,000,000.

III. New Threes, which till October, 1854, paid 3¼ per cent., having previously undergone several conversions from their original denomination as "Navy Five per Cents." The present rate of interest

is secured from further reduction till October, 1874, and dividends are payable April 5th and October 10th. The amount of this stock is about £215,000,000.

IV. New Fives, comprising the residue of the Navy Five per Cents., but amounting altogether to a comparatively insignificant sum. They are secured from reduction till after January, 1875. Dividends payable January 5th and July 5th.

V. Life Annuities, which may be obtained from the Commissioners for the Reduction of the National Debt, at their office in the Old Jewry, in exchange for stock or money, on single or joint lives, calculated according to age, at fixed rates.

The Unfunded Debt is that which is not made a permanent charge on the Revenue—it consisted at one time wholly of

Exchequer Bills.

These are bills of credit issued by authority of Parliament. They are for various sums, and bear interest (generally from 1½*d.* to 2½*d.* per diem per £100) according to the usual rate at the time.

The advances of the Bank to Government are made upon these Bills, and the daily transactions between the Bank and Government are principally carried on through their intervention. Notice of the time at which outstanding Exchequer Bills are to be paid off is given by public advertisement. Bankers invest in Exchequer Bills to a considerable extent, even though the interest be for the most part comparatively low, because the exact amount of capital advanced will be repaid by the Treasury, the holders being exempted from any but a trifling risk of fluctuation. Exchequer Bills were first issued in 1696, and have been annually issued ever since.

EXCHEQUER BONDS are a similar description of securities to the last mentioned, except that the Bonds are not payable annually. They were introduced by Mr. Gladstone in 1853, as part of a scheme for the conversion of some portion of the permanent debt into a terminable one. In the course of the negotiation, however, circumstances arose to defeat the success of

the measure, the result being that a very small amount of Bonds was taken up. In the following year, the South Sea Stock proprietors having claimed payment, and the prospect of a war against Russia having created a heavy demand on the Exchequer, the same Chancellor determined on renewing the attempt to create Exchequer Bonds, instead of resorting at once to a regular loan. Bonds were, therefore, advertised, bearing interest at the rate of 3½ per cent. per annum, payable half-yearly, in three sets of £2,000,000 each—the Bonds classed A, B, and C, to be payable May 8th, 1858; May 8th, 1859; and May, 8th, 1860; the Bonds to be issued in amounts of £100, £200, £500, and £1000. Of these Bonds, however, only Classes A and B were ever taken up—to the amount, it is understood, of nearly £4,000,000. The dividends thereon are payable in May and November.

It will be seen that all these funds represent loans [illegible]de at various times, and for different purposes,

by private parties to the State. The practice of providing for State exigencies by such loans was first adopted by the Government of Florence, as far back as the year 1341. The sum borrowed was only £60,000, but as the State had not the means of immediately discharging the debt, it had recourse to a very ingenious and then new device—that of creating out of this liability a joint-stock divided into shares. These were to bear interest at 5 per cent., and, for the sake of mercantile convenience, made transferable. It is obvious that the *absolute* value of these would vary with the actual power of the republic to pay the debt, and their *market* value with the public opinion of the State solvency.

In France a similar mode of raising money was adopted by the Cabinet of Louis XIV., in order to cover the expenses of his long and ruinous wars. But in all these cases it was contemplated that the debt itself should be extinguished in the time of those who had contracted it. The produce of certain taxes, or other branches of revenue, was pledged to pay the interest, and a sufficiency left over this gradually to pay off the principal.

This kind of anticipation was of no unusual

occurrence in the financial annals of nations; but it was not until the House of Hanover had ascended the throne of this country that anything further was attempted. The plan of a perpetual charge on the revenue of the country dates from the reign of the First George. There were for this political as well as financial reasons. The new dynasty was not popular; it was tolerably certain that it would be disturbed by revolt, if not actual rebellion, and the Government of the king did not venture, in such a state of the public mind, to increase the burden of taxation. Loans were therefore contracted, the interest alone of which was provided for, and the principal left to the care of posterity.

In the years 1715, 1716, and 1717, Acts were passed according to this policy, and the taxes appropriated to the discharge of the State debt were consolidated into three funds—the Aggregate, the South Sea, and the General. From the surplus of these a fourth was formed, called the Sinking Fund, the object of which was to reduce the debt till it should gradually be discharged.

Thus the Government of this country consented to pay a large sum in the form of perpetual annuities, which we still distinguish by the titles

either of the interest they pay or the purpose for which they were created.

But as exigencies for money were perpetually occurring, new sums were continually borrowed, so that the debt of the Nation to its creditors has for the most part been increasing since the time when it was first contracted. In such cases, the money so borrowed, or as it is the fashion to call it, the capital thus created, is added to that already existing under the same denomination, so that the old and new debts are "*consolidated*," and thus we speak of the 3 per cent. consols, &c. But a practice prevailed so unphilosophical, so inconsistent with all mercantile science, that it would scarcely be believed possible on the part of an enlightened finance-minister. The State wanted money—it would not pay more than 3 per cent., and money was not to be had at a lower rate than 4½. The difficulty was solved as follows: as, at 3 per cent., £150 would produce precisely the same revenue as £100 at 4½, the State gave the buyer £150 stock for his £100, so that he might receive the interest payable on the sum which he actually lent.—*See* "Gilbart's History of Banking."

On this subject Dr. Price, in his preface to the third edition of his "Observations on Reversionary

Annuities," p. 14, says—"Were a person in private life to borrow £100 at 5 per cent. on condition it should be reckoned £200 borrowed at 2½ per cent., he would, by subjecting himself to the necessity, if he ever discharged the debt, of paying double the sum he received, gain something of the air of borrowing at two-and-a-half per cent., though he really borrowed at five. But would such a person be thought in his proper senses? One cannot indeed, without pain, consider how needlessly the capital of our debts has been, in several instances, increased. Thus do spendthrifts go on, loading their estates with debts, careless of what difficulties they throw on the discharge of the principal, leaving that to their successors, and satisfied with any expedients that will make things do their time."

The price of stocks is influenced by a variety of circumstances. Whatever tends to shake or increase the public confidence in the stability of Government, tends at the same time to lower or to raise the price of stocks. They are also affected by the state of the revenue; and more than all by the facility of obtaining supplies of disposable capital, and the interest which may be realized *upon loans to* responsible persons. From 1730 till

the rebellion of 1745, the Three per Cents. were never under 80, and were once, in June, 1737, as high as 107. During the rebellion they sank to 76; but in 1749 rose again to 100. In the interval between the Peace of Paris in 1763, and the breaking out of the American War, they averaged from 80 to 90; but towards the close of the war they sank to 54. In 1792, they were, at one time, as high as 96. In 1797, the prospects of the country, owing to the successes of the French, the mutiny in the fleet, and other adverse circumstances, were by no means favourable; and in consequence the price of the Three per Cents. sank, on the 20th of September, on the intelligence transpiring of an attempt to negotiate with the French Republic having failed, to 47⅜, being the lowest price to which they have ever fallen.

A few words will be necessary on the subject of foreign loans; these will be considered chiefly as investments, the principle of loans having been sufficiently investigated in those chapters which treat of our own. None of these are equal in security to those of our own Government, and some are of a kind so especially "risky" as to make all prudent persons unwilling to meddle with them.

The unhappy political condition of Spain, and

the unscrupulous treatment by her successive rulers of her foreign creditors, render the obligations of that country a very undesirable investment. Greece has been a defaulter in the payment of the interest on her bonds, and the financial condition of Austria, although she has hitherto punctually paid her interest, is anything but satisfactory.

The credit of Russia is good, although little is known to the Western Powers of the internal resources of that vast empire.

The public debts of the other European countries are held in more or less high repute according to circumstances, and it remains to be seen how France will bear the enormous drain on her resources, to which she will have to submit in order to pay the interest on the gigantic addition to her public debt incurred by the liquidation of the indemnity in course of payment to her German conquerors.

The public debts of the British Colonies stand well in public estimation. This is also the case with the debt of the United States of America, who have not only punctually paid the interest to their public creditor, but have reduced and are now reducing the debt itself very largely.

The obligations of Brazil, Chili, and Peru are in

good repute, but some of the other South American Republics appear to be careless of their reputation, and totally destitute of any moral sense.

The debts of Foreign States are usually expressed in the form of bonds, payable to the bearer; to each bond is attached a sheet of coupons; one coupon represents half a year's interest, and is cut off at the proper time, and presented for payment at the place indicated.

CHAPTER IX.

OF THE STOCK EXCHANGE—BROKERS—DEALERS, ETC.

History and Business of the Stock Exchange—Mode of Transfer — Brokers, Dealers, and Speculators — Stock Exchange Terms—Time Bargains—High Character of the Stock Exchange—Nature and Manner of Gambling.

AS all other markets have their localities, so the money market, though carrying on its operations wherever the great agent of commerce is at work, has nevertheless its special place of action—its mart for securities—its locality for the meetings of bankers, merchants, brokers, dealers, buyers and sellers of stocks and shares, and all who deal or speculate in money. In London, which may be called the financial metropolis of the world, this locality is about the centre of the City proper. It comprehends the Bank, the Royal Exchange, the Stock Exchange, most of the houses of the chief bankers, the joint-stock banks, the finance and discount companies, the great insurance offices, and nearly all the principal establishments connected

with or dependent on these. A little farther to the east are the Corn and Coal Exchanges, and beyond these, still farther, in the same direction, lie the Custom House, the Docks, and all that constitutes London a port of the first magnitude. How little these limits are changed may be seen from the words of an old writer, who, nearly a century ago, discusses the same topic :—

"The centre of jobbing is in the kingdom of Change Alley and its adjacencies. The limits are easily surrounded in a minute and a half. Stepping out of Jonathan's into the Alley, you turn your face full south; moving on a few paces, and then turning due east, you advance to Garraway's; from thence, going out at the other door, you go on still east into Birchin Lane; and then, halting a little at the Sword Blade Bank, you immediately face to the north, enter Cornhill, visit two or three petty provinces there on your way to the west; and thus having boxed your compass, and sailed round the stock-jobbing globe, you turn into Jonathan's again."*

Purchases and sales of stocks and shares are

* Jonathan's Coffee House served as a Stock Exchange about the year 1770. Garraway's was sold to Messrs. Glyn & Co. a short time since.

made at the Stock Exchange, a large building in close proximity to the Bank of England, having several entrances at different points. The operations are effected between stock brokers and stock dealers; the business of the latter is to accommodate the buyers and sellers of stock with the exact sums they want. A dealer is presumed to be possessed of considerable property in the funds; and he declares prices at which he will either sell or buy. Thus, he declares he is ready to buy 3 per Cent. Consols at 93⅜, or to sell at 93½; so that, in this way, a person willing to buy or sell any sum, however small, has never any difficulty in finding an individual with whom to deal. The dealer's profit, of course, consists in the difference between the prices at which he buys and sells. He frequently confines himself entirely to this sort of business, and engages in no other description of stock speculation. The broker is a distinct person—he is simply the agent, who buys and sells for his principal.

That a stock-broker should be a man of good standing and character is evident, considering the magnitude and importance of the business which he has to transact. It is essential that he should be a member of the Stock Exchange. This implies that [illegible]hould have been regularly recommended to the

Exchange by three members, who become at the same time security for him during a limited period. When elected a member, he pays for the privilege an entrance fee of one hundred guineas, an annual fee of twelve guineas for himself, and a similar annual payment for any clerk whom he may authorize to act in his name. His dealings are under the general supervision of his co-members—more than a thousand in number—and any overt dishonourable conduct is invariably punished by expulsion. The Stock Exchange is governed, or rather managed, by a committee of thirty persons, and if any dispute arise between a broker and his client, it may be referred to this committee, who will investigate the question and arbitrate between the two. So various and so numerous are the checks upon irregularity, and so jealous is the Stock Exchange of its honour, that in all intelligent circles the character of a stock-broker is looked upon with great and well-merited respect.*

* It is very often supposed that the "*Bourse*" in a continental city performs all the functions of the London Stock Exchange; but this is a great mistake. The "*Bourse*" of Paris, for instance, is a State creation, and the Government makes laws for its regulation. The Stock Exchange in London is perfectly free from State interference. Another great difference is, that in Paris, as

The same may be unhesitatingly said also of the stock-dealer, that is, if he be *a member* of the Stock Exchange. But there is a notion in many minds that the dealer is merely a speculator in stock—a kind of gambler, who lives by the profit he can make on his own ventures, and is often in no condition to pay his losses, should he incur any. This is an error. He is in reality a stock-merchant—he acts according to the best of his judgment in purchasing such stocks as he thinks will be in demand, and will therefore rise; and he sells, like other men of business, when he expects a fall, and desires to limit his own losses. All respectable dealers are members of the Stock Exchange, subject to its rules and sharing its reputation.

Those who have business to transact, unless it be on a large scale and under rare circumstances, are never brought into contact with the dealer at all. They apply to the broker, who obtains from the dealer the particular amount of the stock required, and effects its transfer to his principal. It is

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well as in other foreign "*Bourses*," there is no such class as that of stock-jobbers or stock-dealers. Buyers and sellers are both dependent upon speculators, hence transactions are not always possible. In London, on the contrary, the existence of a class of regular dealers make all bargains possible even in the entire absence of speculators.

not considered *advisable* for a dealer to be a broker also; and though there are some who combine the two branches, they are looked upon with some distrust by the highest members of the profession.

When* a sale of stock is agreed upon, it is executed as follows. A note is made out containing the name and designation of the seller, and the sum and description of the stock which is to be disposed of. The transfer takes place either at the Bank or at the South Sea House. There round a spacious room are desks, before each one of which is a letter of the alphabet. The seller applies to the clerk seated at that one which bears the initial of his own name. The books are examined to see that the applicant really has the stock which he proposes to sell; and when this is ascertained the transfer is made out, witnessed by clerks provided for that purpose, and on the payment of the covenanted price the transfer is handed over to the purchaser, and the business is concluded.

Every facility is placed in the way of such transactions. Forms for "*powers of attorney*" are

* *See* M'Culloch's "Dictionary of Commerce."

obtainable at the Bank of England, and stock-brokers exercise by these means the authority committed to them by their clients, and buy, sell, pay, and receive dividends accordingly. But before transferring stock under such a document, the broker must deposit the instrument in the proper office for examination, at least one day before transfer can take place. Moreover, if a stock-holder who has granted to any person a power of attorney acts in any transaction of the kind personally, the power of attorney becomes *ipso facto* invalid.

The stockholder is the person in whose name the stock is invested at the period when the books are shut, just before the dividends are paid; and he alone can receive them, so that if the stock be purchased at the very latest moment allowable, he still has the interest for the whole half-year past. Sometimes, however, a reservation of this interest is made by the buyer, and then the stock is said to be sold "*ex dividend.*" The consequence of this is, that the price of stock rises as the time of payment approaches, and sinks immediately after the dividend is paid. The following example is given by a recent writer on banking:—

"Three per Cent. Consols should be higher than

the 3 per Cent. Reduced by ¾ per cent., from the 6th of April to the 5th of July; and from the 10th of October to the 5th of January; and should be as much lower from the 5th of January to the 5th of March; and from the 5th of July to the 10th of October." And this is generally found, except when accidental circumstances cause a slight variation, to be really the case.

One result of the different periods at which the dividends on the various stocks are paid is, that the fundholder, desirous of regulating the times for receiving his income, may do so half-yearly or quarterly, as he pleases.

The variation in the value of stock has called into existence the business of a speculator—*i.e.*, of one who makes his income by buying and selling stock according to his views of its prospective increase or decrease of value. If this be done by persons having really property in the funds to dispose of, it differs in no way from the ordinary occupation of a merchant, save in the material in which he speculates; but the fact is, that the business is largely carried on by persons who have no stock to sell and no money to buy. To make this intelligible, let it be supposed that I agree to sell a certain sum, say £1000, of a stock, which

we will call Italian, for £600. I agree to make the transfer in a fortnight's time; but I have no Italian Stock, nor do I possess the £1000, or even the £600 to buy it! But I make my bargain on the supposition that Italian Stock will decrease in value; and that I may, therefore, at a time near the settling day, purchase the £1000 stock for £580—that is, that it will be at 58 instead of 60 per cent. If my expectations are fulfilled, my judgment is shown to be sound, and I gain £20 by the transaction. If, however, my views are erroneous, and the stock rises instead of falling—if, for example, it is worth 62 instead of 60—then I lose £20. It will be evident that, in business of this kind, it is not necessary that there should be any transfer of stock at all. These bargains, which are called "*time bargains*," amount simply to wagers concerning the price of stock; and as they are not sanctioned by law, the payment cannot be enforced. However, the practice is carried on to a great extent, and by men of the highest respectability; and any person who did not honourably complete his engagement would be banished from the Stock Exchange.

And here will be a fitting opportunity to explain some of the "*argot*," as it may be called, of the

place. A man who cannot pay his liabilities is called "*a lame duck*," and is said to "*waddle*"—that is, to disappear from the Exchange.

"Bulls" are those who buy stocks in the expectation of a rise in price, in order that they may afterwards sell again at a profit.

"Bears" are those who sell stocks in the expectation of a fall in price, in order that they may afterwards buy again at a profit.

The "settling" days occur twice in each month, when the transactions of the preceding fortnight are settled for in cash.

On the settling days in January and July the Bank books are reopened for public transfer, and notice of this is given at the Bank, when the Consol accounts are closed to prepare for the dividend. The price to be paid or received for stock transferred for the settling day is called the price "*for the account.*" Thus, Consols may be for cash 93¼, and for the account 93⅜. If an agreement be made between buyer and seller to postpone the completion of the bargain, the postponement is called "*a continuation.*"

In the account of Stock Exchange transactions the terms "put and call," "options," "contango"

"backwardation"—most awkward and ill-contrived words, by-the-bye—are frequently met with. These have reference to time bargains. A speculator may buy the right to purchase stock at a given price on a given day from another speculator —this is termed purchasing the call; he may obtain the right to sell, compelling the other to buy —this is denominated the "put"—or he may buy the choice between the two, which is called "buying the put or call;" or otherwise, "making a speculation in options." "Contango" and "Backwardation" are fees paid or received to have the time of payment or the delivery of stock deferred; these are sometimes very heavy.

All the business, however, which is done in the stocks *for time*, is not of a gambling nature. In a place of such extensive commerce as London, opulent merchants, who possess property in the funds, and are unwilling to part with it, have frequently occasion to raise money for a short time. Their resource in this case is to sell for money and buy for account; by this means they may obtain the use of the money at the cost of the difference in the prices of sale and repurchase. On the other hand when at a settling day the supply of stock is scarce,

a profit may be sometimes made by lending stock until the next account day, to a seller who finds a difficulty in obtaining the stock he has contracted to deliver.

CHAPTER X.

PRINCIPLES OF COMMERCE—FREE TRADE AND RESTRICTION.

Freedom of Commerce—Instances of—Necessity of Taxation—Employment of Duties — Retaliative Duties — Protective Duties—Chili stockings—Corn Laws, how to be understood —Competition—Rent—Colonial Produce—Commerce to be entirely free.

THE principles of commerce will not be discussed here further than as they affect and are affected by those of monetary science. Money is the instrument of universal barter,—the world's common measure of value; whatever, therefore, encourages trade, stimulates the money market; whatever makes money abundant and easy to obtain on reasonable terms, encourages and enlarges commercial operations. If the merchant can trade freely and profitably, it is worth his while to trade; the necessities of his position bring him into the money market, and the banker, the bill discounter, the stock-broker and dealer, participate in his prosperity as well as the shipbuilder and the manufac-

turer. If, on the other hand, restrictions are laid upon him beyond those dictated by absolute necessity, his efforts are relaxed, and all those dependent upon his operations are proportionably restricted in theirs.

Commerce, to fulfil its great objects, must be free, and in proportion as this freedom is really enjoyed among nations, they will be increasingly able to develop their various resources, the more inclined to peace, and the money market will be excited to a more wholesome activity in providing that which was once called the sinews of war, and may be called still more emphatically, the sinews of prosperity. By freedom of commerce is meant that all who wish to buy, shall buy where they find the best and cheapest articles, and that all who wish to sell, shall have the liberty of selling where they find the most advantageous market. I want oil, wine, and furs; a merchant in Italy will supply me with the first, one at Bordeaux with the second, and one at St. Petersburg with the third. I may have them all of home growth, but the one will be thick and coarse, the other poor and unwholesome, and the last-named neither fine nor durable; those which are offered to me from abroad are all excellent in their kind. On the

other hand, the Italian merchant wants cotton goods, the French farmer wants machinery, and the Russian fur-dealer wants cutlery. All these things I can supply much better and cheaper than each of my foreign correspondents can make for himself: why should we not exchange? I send abroad, therefore, my home-grown or home-made productions, and receive in return the produce of foreign lands.

Now that this should be done with regard to all commodities is the theory of free trade. Founded on nature, it is obviously for the *general* advancement of mankind; but when the theory comes to be applied to practice, we are met with many difficulties, and much opposition. First, the Government says: "We must have money for the service of the public; direct taxation, though best in principle, will not serve us, for no Government would be able to raise by direct taxation the amount required for that purpose in England; we must, therefore, tax certain articles of general use which are either manufactured at home or imported from abroad, so that the people will pay the tax in proportion to their consumption, and the tax will not appear to press heavily." This demand is one which is both just and expedient; let us see how it acts. *Suppose* that I can buy in Italy a quart of

olive oil for sixpence, and suppose that the freight, land-carriage, and profit to merchant and retailer amount to as much more, then if trade were quite free, I should pay one shilling for the same article in London; but there is a duty levied of threepence, which goes to the Government here, and I pay one shilling and threepence to the Italian warehouse-keeper for my bottle of oil. But it may be also that the Italian Government imposes an export duty—that is, does not allow oil to leave the country without first paying somewhat for the permission; let us call this export duty another threepence; I then pay one shilling and sixpence for my bottle of oil, and the payment may be divided somewhat in this manner: sixpence goes to the Italian cultivator, and is the return for his labour and capital; sixpence goes to the shipowners, carriers, merchants, and retailers; threepence, minus the expense of collecting, goes to the British Government, and may be expended in gunpowder and scarlet cloth, or it may help to make up the salary of the Lord Chancellor, or the pay of a private soldier. While the remaining threepence may, in like manner, when the expense of collecting is deducted, go towards putting down brigandage in Calabria or the Abruzzi. So long as the duty is a moderate

one, it will have little or no effect upon consumption; the foreign grower will find his market, the consumer here the required commodity, and the civil authorities the sums necessary for the public service.

But now let us suppose that the grower of oil at Valencia and Malaga can supply the same article at the same price, and that the Spanish Government imposes no export duty, then the Spanish oil can be sold for fifteenpence. When the Italian oil costs eighteenpence, one-fifth, that is, 20 per cent., is added by the Italian Government to the price of this oil, and the article is excluded from the market by legislative restriction. Let us further suppose, that in consequence of a commercial treaty with Italy, a duty is laid on Spanish oil, greater than that paid by the produce of Italy, or that the duty is remitted on the latter and not on the former, the value of the two articles would then be equalized, and they would divide the market; but Spain would immediately impose some retaliative duty on British produce, which would counterbalance, and probably more than counterbalance, the advantages gained by the treaty.

From this it will appear that the imposition of a

duty does not necessarily interfere with the freedom of commerce, but only in those cases where the amount imposed excludes desirable commodities. At the same time it is almost a maxim of political economy, that a low rate of duty (on articles of common use) is more productive than a high one; thus there appears reason to believe that, were the present duties on some imports even still more reduced, a larger sum would be paid to the Government, and the comfort and welfare of the people materially augmented. Articles of mere luxury are fair objects of heavy import duties. It matters nothing to the nation at large, and very little either to the foreign producer or the home consumer, that the rich man should pay two or three hundred per cent. duty on his bottle of *Curaçao* or *Maraschino*—the State is a gainer, and no one is a loser.

From the consideration of import duties simply as means of raising a revenue, we come to regard them in the light of protective enactments. A single stocking-frame was set up many years ago in Santiago, the capital of Chili; the Chilian authorities forthwith, to protect their home-manufacturers, imposed upon all foreign stockings an almost prohibitive duty. This was done with a

view to *protect* home-interests. What was the result? The Nottingham stocking-weaver wanted Chilian produce, but he was unable to pay for it, because his payment—that is, his manufactured goods—would not be taken. The Chilian farmer lost his market, and the inhabitants of Santiago were obliged to go without stockings; at least this would have been the effect had so absurd a regulation been persisted in.

But to take a familiar instance: let it be supposed that, under his present circumstances of rental, the English farmer cannot grow corn to remunerate him at less than forty-five shillings a quarter; let it be also supposed that from Poland and Russia corn of equal quality can be sent into the market at forty shillings; the foreigner, in this case, undersells the home-grower by five shillings per quarter. Government lays on a protecting duty of five shillings, and thus equalizes the two articles for the benefit of the English producer. Let us, then, investigate this transaction:—First, we see that the State takes five shillings from the foreigner, in order that the farmers may take five shillings from the British consumer; the weight therefore falls on the public, who are thus taxed because the conditions of farmers are unprosperous. The artisan says to

the Government, You make me pay tenpence for the loaf which, were it not for your enactment, I should get for eightpence; and, as other commodities follow, to a great extent, the price of bread, your corn law makes my coat, my tools, and my cottage all dearer to me, while my wages are not in any way raised by it." Now, as the object of this protection duty is to secure the interest of the farmer, *under his present circumstances*, it would be clearly the same thing, so far as he is concerned, to tax the public by a corn law, or to give him direct bounty out of the proceeds of the other taxes to the extent of five shillings in the quarter; in each case, *all* the public would pay it; in each case, the object would be the same; in each case, it would be equally effectual; but in the latter, stripped of its indirect character, it would be an odious and iniquitous piece of favouritism.

But hitherto we have seen the matter only in one light; two questions remain:—Is it so impossible to compete with the foreigner, in the trade in corn, even under present circumstances? and, secondly, if so, why? The rate at which land continues to be sold, and the continuing eagerness to possess it, would seem to indicate that the impossibility itself is not

by any means a self-evident proposition. No one contends that the soil of England and Ireland is less fertile than that of Poland or Russia; the increasing knowledge of agricultural chemistry—a science as yet in its infancy—will probably make our harvests more than sufficient for our wants. In fine, the problem of competition has yet to be solved.

But supposing that it be solved, and solved unfavourably, then comes the other question—Why cannot the English farmer compete with him of Poland or Lithuania? The reply is, he does not live in the same manner, subsist on the same fare; he is more taxed, and, above all, *he pays a higher rent.* Now, no one would wish to degrade the English farmer to the condition of the Polish or Russian peasant; the equalization cannot be made in that manner; and besides, it is to be hoped, on the contrary, that the *less* civilized will gradually be brought up to the level of the *more* civilized; and the equalization of condition will thus be effected. Again, it is not true, to any extent worthy of notice, that the English farmer is more heavily taxed than the foreigner. If direct and indirect taxation be taken together into consideration, it will appear that this country is not

more burdened than the generality of continental nations. The third objection is a true and valid one—*he pays a higher rent.* This is a matter which will soon rectify itself; and with its rectification will disappear all the inconveniences which have been supposed indissolubly connected with free trade in corn. It has been strangely forgotten, by many writers, that land is a commodity as well as corn, and that its price, whether for sale or hire, must depend on what can be gained by means of it. If brooms fetch threepence each in the market, the man must be mad who buys the materials for threepence-halfpenny, and then says to the State—I cannot sell my produce save at a loss, to speak nothing of my own support; make up to me the deficiency out of the taxes.

Another case supposed to require protection duties is that of colonial produce. Other nations and their colonies may undersell us; we must, it is said, protect our colonists, by imposing a duty on produce similar to theirs when it reaches us from other sources. But it is by no means clear that we have a right to lay an extraordinary tax on our home population for the benefit of our colonies. Colonies are established to be an aid, not a burden, to the parent state; and if rightly managed, would

be so. Besides which, it is difficult to assign any irremediable cause by which our colonists are undersold, and the wiser plan is not to bolster up a corrupt system by protection duties, but to remove those causes which make free trade unprofitable. It is said that slave labour is so much cheaper than free labour, that our West Indian colonies cannot sell their produce at the same rate as Cuba and Brazil. If this indeed be so, it may be a question between a protection duty which treats negro slavery as an element in prices, and an absolute prohibition of all importation of slave-labour produce, on the ground that the system itself is bad, unchristian, and unlawful.

This principle will find its natural limitations. Where an article is *necessary*, and is only to be obtained in sufficient quantities from states employing slave-labour, then the old maxim, "Necessitas non habet leges," is applicable. But even then a Christian nation will make no small exertion to procure a sufficient supply from the produce of free labour, and will use the other only so long as the absolute necessity remains.

It must never be forgotten that *all* duties fall on the consumer: so long as they do not materially reduce the amount of the article imported, they are

a tax on the home population—more or less justifiable in proportion as they affect the necessaries of life. If they do reduce to any considerable extent the amount of importations, then they do to a certain extent affect the comfort of the people, the prosperity of the merchants, and the welfare of foreign producers.

Commerce, to be really free, must be free in *all* its branches; that enactment is but a deliberate injustice which sets only one class of producers free, and holds back the rest by a system of restrictions. If the English farmer be made to stand on a commercial equality with the Pole and the Russian, he ought to be compensated by free access to *all* the products of the known world: whatever he can gain by free trade, is the return made to him for his otherwise reduced profits. The only lawful reason for any import duty is that the support of the State renders it necessary; and then it should be so arranged, so levied, and so collected as to interfere in the slightest possible degree with the freedom of trade.

As a general principle protection has been long given up in this country and freedom of commerce substituted in its place.

If the subject of this chapter should seem but

slightly connected with financial science, let it be remembered that not only do duties and commerce and the money market all reciprocally affect each other, but that the price of our own stocks depends on our commercial prosperity, and the payment of the interest and principal of foreign loans on the customs of great foreign ports.

CHAPTER XI.

OF JOINT-STOCK COMPANIES AND LIMITED LIABILITY.

Necessity of New Legislation—Meaning of the term "*Commandite*" —Equity of the New Law—Real Liability—Large and Small Shares—Lord Overstone's Opinion—Progress of the Principle —Early Opposition—Joint-Stock Banks—Their Liability.

FOR many years a notion was afloat in the financial world that undertakings of decided importance were retarded, and the general course of commerce impeded, by the peculiar liabilities of all who entered into partnership.

If a man shared the profits of a business, however small his share might be, he became to all intents and purposes a partner, and was answerable, to use the powerful phrase current at the time, "to his last acre and his last shilling," for the debts incurred by the firm or company. This, it was contended, prevented hundreds from investing moderate sums in enterprises of great public utility, keeping capital and intellect alike out of the

market, and unnecessarily and prejudicially restricting the field of investment.

It was proposed that a plan which had been found to act well in France should be introduced into this country, and that partnership "*en commandite*" should become an English institution. The meaning of this was that any person having a sum, large or small, which he wished to employ in business, might do so without endangering more. This plan was, of course, only applicable to joint-stock companies—the minimum number of partners was to be fixed, but any extension allowed, and it was provided by the Act that no member of such company should be held legally responsible for more than that which he covenanted to pay.

It is difficult to object to an arrangement morally and philosophically so reasonable, and there is no doubt that the system has largely increased the commerce and therefore the prosperity of the country. It has employed, and thereby rendered profitable, immense sums which would otherwise have been hoarded, or what to the small investor is nearly the same thing, have been invested in Consols. Losses were less felt when they entailed no further consequences than such as could be clearly foreseen, ventures were bolder when the extent of the

risk was clearly defined. The principles of equity make this indispensable in large companies having numerous shareholders, for as these are necessitated to trust the management of their common business to directors, secretaries, and others, and cannot look after it themselves, they are entitled to say, "We will trust you so much and no more;" and it would be hard upon them to call for larger sums when these have been expended. With regard to the general public engaged in trade, it seems a case in which the maxim "*caveat emptor*" may be fairly applied. In fact, few men of ordinary sagacity trust joint-stock companies of limited liability without having first satisfied themselves of the solvency of the company. But while freely admitting the benefits derived to commerce from this mode of transacting it, I cannot refrain from noticing how much larger are the responsibilities in joint-stock companies than the shareholders are sometimes aware of.

A prospectus is sent to me of a new Company. It has a fine name—Albert, or Victoria, or Royal, or Imperial, or something equally high-sounding and as remote from trade. Tables are added which show that the lowest percentage of profit to be realized is far beyond the usual gains of business—

ten or twenty, or thirty; that there is absolutely no risk; that the capital is to be two millions; that application must be made at once, or, so great is the pressure for shares, it will be too late. This captivating document further informs me that the shares are £10 each, and it is not considered probable that more than two pounds per share—one pound to be paid on application, and the other on allotment—will be required to carry on the operations of the company. I know little of business, but the thing seems feasible enough. I have heard some of the directors spoken of as mighty men in the City, perhaps even millionaires. I have fifty pounds which I am willing to invest, and I apply for twenty-five shares; I pay my twenty-five pounds and the shares are allotted to me; I then pay a second twenty-five pounds and I set my mind at rest, feeling that I am not, "in all probability," to be called on for any further contribution.

But the real state of the case is this:—I have made myself actually liable for £250. If the company prosper, they will want to call up the rest of their capital, to enlarge and improve their business; if unsuccessful, they will have to make calls to cover their responsibilities. Nor can I, by

the simple process of selling my shares (that is, if I can sell them), release myself from my liability. One twelvemonth must pass before my transfer frees me from the possibility of further calls, or "contributions," in case the company should "wind up." And here, too, is a further safeguard for those with whom it may contract debts, a class of persons for whom sometimes a greater amount of sympathy is expressed than their positions require.

A very able writer on the subject of limited liability expresses himself as follows:—

"The law of 'limited liability' is exceedingly defective in one of its chief elements, and it requires to be 'limited' itself in one very important particular—viz., the amount of uncalled capital. No company ought to have a certificate of 'limited liability' unless the shares are issued on the principle of being paid up at least one-half—say 50 per cent. of the nominal amount. If this had been adopted, much of the alarm and distress of unfortunate shareholders would have been simply impossible. Most people would prefer shares of small denominations paid up in full; but if that be thought too severe a restriction, certainly one-half should be paid. The intention of Parliament

was to sanction and protect the joint employment of private *capital*, not joint *credits*; and the departure from this principle will always be fraught with danger.

"It may be said in reply, the law leaves it open. The law should not leave it open, inasmuch as ninety-nine persons out of every hundred are not aware of the dangers they incur; and the law ought to be wisely framed, so as to protect the ninety-nine per cent. of unthinking or ignorant persons who may have small capitals to invest."

It is evident that what is required is a limitation of excessive liability whilst the company is in its infancy, and increasing it as the company makes progress. The plan of companies limited by guarantee would be found the best suited for effecting this improvement. To exemplify the method of obtaining it, the capital of a guarantee company should be separated into two parts—viz., the paid-up capital, and the guarantee capital.

The guarantee capital would be purely a liability, and the company should have no power to call it up. It would remain only a guarantee fund for creditors, to come into operation in case the company suspends. The advantage of this cannot be over-

rated. By assuring to creditors an exclusive fund, to be divided rateably among them, guarantee companies would never find any difficulty in obtaining support and credit to carry on their operations. A company formed in this manner would, probably, be found to work excellently.

We have now had eighteen years' trial of limited liability, the Act authorizing it having received the Royal Assent in the autumn of 1855. The time has come when the whole Act might with advantage receive a revision; but the alterations required are merely matters of detail, and it is hardly likely that the principle will ever be called in question.

Regarding the *rationale* of a joint-stock company with limited liability merely as an enlargement of the old one of partnership, and differing from it simply by the introduction of this necessary limitation, there are several questions which at first appear merely of detail, but which, when carefully examined, will be found to involve principles, and some of great magnitude. With a few of these we must briefly deal.

Should a joint-stock company divide its stock into small shares or large ones? This is an important question. Small shares attract small share-

holders, and large ones the reverse. The capital may be the same in both cases; but the larger body, which is of course that of the small shareholders, will be necessarily more fluctuating than the smaller constituency, and in consequence of this the value of the shares will be more fluctuating also. This is a disadvantage, and one which makes companies of this kind eminently distasteful to great capitalists. On the other hand, the broader basis is on the whole quite as *secure* as the narrower one; and if it be advisable to induce the middle classes to invest their savings in this kind of company, there can be no doubt that the only way to effect this object is to frame the system of shares so that they may be at once within the reach, and suitable to the circumstances, of this class of investors. All that tends to extend a knowledge of mercantile affairs—to employ capital to the greatest *general* advantage—should be encouraged by those who desire to promote the welfare of the nation at large. The pence of the poor may do their part with the fifty-pound notes of the rich; and as there is nothing more prejudicial than the system of hoarding, so there is nothing more advantageous, in a moral as in a

financial point of view, than the judicious investment of savings.

Among great capitalists, however, such opinions are not held. They look at investments from their own standpoint; they wish, for the most part, only to be associated with the leviathans of the money market; and they have, with few exceptions, set themselves against the principles of joint-stock associations and limited liability. If it were impossible to enter into companies which effect large commercial transactions without taking large shares, which at once require extensive capital and entail corresponding risks; if, in case of non-success, each shareholder were liable to his last shilling or his last acre—none but wealthy men could undertake the responsibility.

Under the old system this was the case, and its natural tendency was to make great houses greater, rich men richer, and to abolish gradually what may be termed the middle classes of commerce. In fact, mercantile operations became so gigantic that these last were in a fair way of being crushed out altogether; there was no room for them; and just as they were about to disappear the joint-stock

principle came to their aid, and enabled them to make head against what had been hitherto out-buying, out-selling, and out-financing them. Now it is clear that the principles of joint-stock trade, which is only an enlarged kind of partnership, and those of limited liability, must stand or fall together. All contracts must be free if commerce is to flourish. No unnecessary interference on the part of Government is to stand in the way of its development. The tendency of the age is so far a wholesome one as it is towards a removal of all restrictions on trade, of what kind soever they may be, and to leave it to the natural effect of its own operations.

But if a company is clearly at liberty to frame its system of shares on such a scale as it may deem best, may it not alter that scale according to the requirements of its shareholders? May it not say to these, At present your shares are shares of £20 each; we wish to double the number of these, and at the same time to reduce the value of each share by one-half. Thus A B, who has twenty shares, the collective value of which is £400, will have forty shares of £10 each, amounting in value to the same sum. Nothing can be simpler than this, and nothing can seem fairer than that the company

should have power to effect the change. But, until a few years ago, this could not have been done without a new charter. Application was made for an alteration of the law in this respect, and (mainly through the instrumentality of the great capitalists, with Lord Overstone at their head), the Bill for the change was thrown out. The grounds of the refusal may be briefly stated thus:—That by this change the whole character of the constituency would be altered, and that those who purchase £20 shares do so with the understanding that they are co-operating with a class of investors having certain elements of stability; that the understanding is broken if the value of the share be altered, and a new constituency be introduced. In fact, that the change is much like the reduction of the parliamentary franchise, and susceptible of being defended or opposed on similar grounds. Under these circumstances the Bill was rejected by the House of Lords in the month of June, 1866. In the following year, however, an Act was passed permitting any limited company, by special resolution, to subdivide its shares into shares of smaller amounts, so long as the proportion between the amounts paid and unpaid be maintained.

Joint-stock banks are capable of adopting the

principle of limited liability, but only with regard to their business as banks of deposit. Such as have the privilege of issuing notes are of unlimited liability as regards such issue.

Joint-stock banking met with great discouragement when the system was new. The private banks refused even to acknowledge the new companies, and the directors of the Bank of England opposed them for many years, but the principle is now acknowledged on all hands to be a great success, and to be eminently suited to the exigencies of the age.

CHAPTER XII.

DISCOUNT AND FINANCE COMPANIES.

Nature of Discount Companies—Nature and Origin of Finance Companies—Their vast Designs—Danger of Distant Enterprises—Perils of Finance Companies—Aid to Railways—Prospects of the Principle.

THE nature of the business of discount companies will require but little explanation here; it is to discount bills, and this they transact, or should transact, on the same principles as do private bill-brokers. The business is an extremely lucrative one, but as its great profits depend entirely on judgment and financial skill, it is one which should only be undertaken by such as feel they have these requisite qualifications in a more than usual degree. Hence it is less adapted to be worked by a company than most others, as it must ultimately depend for success on the individual ability of its managers. Bankers are always bill-discounters, and when they have been brought into difficulties, it has often been by errors in this branch of their business.

As the rate of discount varies with the character of the bills offered, as well as the condition of the market of the time, the capacity to seize and combine all the circumstances of the paper, requires at once a powerful memory, a keen judgment of character, an accurate knowledge of monetary affairs, and of business in general, and the power of forecasting future events, as connected with mercantile transactions, which few possess in perfection.

Discount companies do not trade mainly with their own capital, but with deposits at short notice of withdrawal, made by country bankers and large mercantile firms, attracted by slightly higher rates of interest than those offered by the banking establishments, and with money lent by the London bankers at call, at low rates of interest, on the security of bills of exchange.

With such funds discount companies discount bills, using of course great discretion, not only with regard to the quality of the paper offered, but to the immediate future of the money market, and the probability or otherwise of their deposits being withdrawn.

Unlike bankers, who are expected to be prepared at all times, however extreme, to accommodate their

customers, discount companies are at liberty to cease to discount altogether for a time, should they find it necessary to do so in order to accumulate funds, by allowing bills in hand to fall due. Unlike bankers also (those in London at least), who do not re-discount in other quarters the bills they have discounted for their customers, it is a part of the business of discount companies to re-discount bills they hold, to any extent, when it is to their advantage to do so.

The business of a discount company is really only one particular branch of that of a banker, pursued and elaborated upon separately; and this has been rendered possible, and indeed necessary, by the increased extension of legitimate banking business.

To the uninitiated, the amount of bills of exchange in the hands of bankers, and discount companies, and brokers, would appear stupendous, and out of proportion to the trade of the country, but it should be explained that a series of several bills may and do represent one and the same article or commodity.

For instance, a cargo of cotton is shipped from New Orleans to Liverpool. The New Orleans merchant draws a bill on the Liverpool merchant,

the latter sells the cotton to a Lancashire spinner, and draws a bill on him; the spinner sells the yarn to the weaver; the weaver sells the calico to the wholesale warehouseman; the warehouseman to the draper; and distinct bills are drawn in each case for increased amounts. These bills generally find their way, sooner or later, into the discount market, and, representing as they do, legitimate business operations, are perfectly fit and proper securities for the banker and discount broker; in fact, the business of the latter may be described as advancing the cost of a commodity to the producer or the subsequent holder, and obtaining payment, with interest, from the ultimate consumer.

Finance companies are a new kind of power, and, notwithstanding the present depressed condition of the principle in consequence of the disastrous panic of 1866, from which it has not yet recovered, are no doubt destined to work great results. They undertake to supply cash for the most gigantic undertakings, to make railways, tunnel under mountains, build cities, establish great public works, assist vast enterprises, and to do with their huge capital what few even among millionaires can accomplish alone. While, however, no one can doubt the magnitude of the idea, or the extent of

its probable results, it must be understood that the risks are proportionate, and companies of this kind are peculiarly liable to the operations of panic-makers. If successful, their profits must necessarily be immense; if otherwise, the losses will be tremendous. In regarding these associations as offering investments, it must be noticed that they do not communicate their plans to their shareholders, except in a very general way, so that no man can properly judge for himself as to the probabilities of success or failure.

To develop the resources of half civilized nations such as Turkey, Egypt, Persia, or China is peculiarly the function of a finance company. In such countries money is scarce, the rate of interest high, wages rarely extravagant, and, in well considered operations, large profits may be obtained.

The prospect of enormous gains held out in the days of the wild speculation which preceded, in fact led to, the panic of 1866, have not been realized; but it is quite certain that the natural wealth of some of those rich countries is capable of returning highly remunerative results when developed by European capital and enterprise judiciously directed, but, at the same time, the

distance of such lands from our own, the lax notions of commercial morality which too frequently prevail among their inhabitants, the difficulty of obtaining redress in case of fraud, and many other drawbacks, must be taken into account when we contemplate entering into speculations of this nature.

Thus if finance companies are the latest and most striking productions of modern commerce, they are also the most speculative. Hence they require the greatest care and the most extensive information on the part of those who are to conduct them. They have another disadvantage which they share with all joint-stock companies more or less; and that is, that it is comparatively easy to get up "bubble" companies of this description. Few persons know much of the real grounds on which a company is formed; the public puts its faith in the principal names on the direction, and these have often been either fraudulently obtained or boldly printed without their owners' consent. It is a notorious fact that a company was formed by three penniless adventurers, who could not among them pay for a luncheon at a tavern where they met to frame their prospectus; and yet they "floated" their company,

and it ultimately became prosperous;—but then the scheme was a good one.

But finance companies are especially subject to danger if they pass out of their legitimate field of operations. They ought never to be subject to "a run," and ought therefore to eschew all deposits save for considerable periods. Most of those who suffered in the panic of 1866 did so by not adhering to this rule. Their *business* is to have their capital "locked up," and to be subject to no demand save for dividends. They require also peculiar care, on the part of shareholders, to have satisfactory and searching examinations into the state of thei affairs, and it is the duty of these, in case of any irregularity, to deal stringently with managers, secretaries, directors, and auditors.

The very nature of such a company requires a greater amount of reticence than is necessary in most others. Were their plans all divulged the directors would never be allowed to carry out any one; their whole time would be spent in discussions, all fruitless, and all expensive. Few shareholders would be competent to advise, and many would take upon them to interfere. This reticence is, however, by no means an element of danger. It happens that those very companies in which there is the least

probability of trouble or interference on the part of shareholders, are precisely those which to a discriminating mind have the best chances of success. We must except, however, those cases in which a company is formed out of an old private business, supposed to be fortunate. These speculations are quite as often failures as successes. In the first place, there is the antecedent improbability that a flourishing concern will be given up by those who possess it. In the next, there is the inconsistency of such persons remaining to manage a firm for others, which they have, as it is presumed, conducted with a profit all their own. There is little danger of interference on the part of shareholders here, for it is an ominous and significative circumstance, that in the share-list will rarely be found the names of persons engaged in any similar occupation.

But to return to finance companies. They are subject, of course, to most, if not all, of the dangers to which other commercial associations are liable, and they have some which are peculiar to themselves. They suffer from foreign intrigues and diplomacy, from the vicissitudes of war, from the non-fulfilment of foreign obligations, and these because many of the undertakings for which they [illegible]ish the means, are in foreign lands, and

subject to foreign conditions. At the same time, they are frequently, by the imprudence of their managers, victimized considerably at home.

Take the case, by no means an imaginary one, of a railway contractor who has come to the end both of his cash and his credit—he dares not stop the works—this would be absolute ruin—his company cannot help him, they dare not make a call—and the whole affair comes to a dead-lock. In this dilemma the contractor proposes to the company to issue £50,000 worth of debentures at 6 per cent. and to hand them over to him. He finds a finance company willing to advance him, on this security, say £30,000 in small bills at short dates. He is enabled to pay his men their weekly wages, and the railway works go on.

The finance company meets, and the manager relates the transaction. He points out that there is a margin of £20,000 on the security, and that it produces 6 per cent. interest.

But though nothing could be more satisfactory than this on paper, yet it is evident that these bills must be continually renewed till either the railway itself is complete, and begins to pay, or till some catastrophe occurs to the financial company. If the latter has been well managed, and has had few

transactions of the kind, then this, as an exceptional proceeding, may pass; but if it be a specimen of the company's operations, they will before long clash, and railway and finance company will go down together. The error will have been in taking obligations which required speedy fulfilment, and balancing these with securities which could only be realized at long periods. But, after all, it is most probable that the great industrial works of the future will be carried out by the finance company principle, notwithstanding that the reckless excesses of the last pre-panic period have tended very much to damage that principle in the eyes of the commercial world.

CHAPTER XIII.

PANICS :. THEIR CAUSES AND CONSEQUENCES.

Nature of a Panic—Various Causes—Operations for the Fall—Bank Failures—How Caused—Hints to Shareholders—Effect of Wise Conduct on the part of the Public—Maxims of the late Duke of Wellington.

WHAT is a panic? It is a wild, groundless, unreasoning, and unreasonable terror. It has in its time paralysed statesmen, defeated armies, and destroyed dynasties. Now for the most part it contents itself with causing banks to close, merchants to fail, and finance companies to make calls on their shareholders; it brings ruin to speculators, embarrassment to contractors, and poverty to families. There is, therefore, quite as much mischief effected now as there was when persons of high degree were the ostensible victims.

Panics often arise from commercial ignorance, and especially from two prevailing errors before noticed—one of which is, that wealth and money are synonymous terms; the other is, that in com-

mercial transactions there are two opposing interests involved—that of the buyer, and that of the seller.

The national wealth of a country abounding, like our own, in coal, iron, tin, lead, and copper—in cereals and cattle—in fish, wool, and flax—must entitle it to the appellation of a rich country, even though there were not a coin in it. France, with her boundless store of corn, wine, and oil, is of her own nature wealthy; and money is in such countries only the medium of exchange by which wealth is made available. It is quite possible for a man to have a fertile estate, often of many thousand acres, and yet to have only a balance of one hundred pounds at his banker's; but he does not on such grounds cease to be a rich man. Now what is true of nations and private men, is true also of merchants and mercantile associations. In fact, the truth is self-evident; and it would be almost ridiculous to insist upon it, were it not that so much of our commercial distress arises from its being ignored or forgotten. A credit, or finance company, possesses securities to the amount of a million sterling. These form its *wealth;* but these cannot, in their very nature, be prematurely turned into cash. Its members have invested their money in them, in

order that it may fructify; and to draw out that money till it has done what they invested it to do, is the trick of a child who pulls up the flower he has planted, to see how it is "getting on." All mercantile business must be carried on in a spirit of confidence. Money *and time* are its elements, and the result is *wealth*.

An opinion has obtained, that the embarrassments caused by the panic of 1866 arose from "*over-trading*," but those who make this charge have not been good enough to tell us what "*over-trading*" means. We should define it thus:—It is the entering into engagements which the contractor has no *legitimate* means of meeting. A company purchases, with money entrusted to its discretion, a tract of land—say in Brazil, for instance—rich in mineral wealth and in timber, fitted for the production of cotton and cocoa, and advantageously placed with regard to the sea. It wants capital to develop its resources. This the company supplies. The scheme begins to prosper—shares rise in the market—dividends increase. Now occurs a panic. Reports are diligently spread that the prosperity is all fictitious; the shareholders have been deceived; the great men who joined the company are leaving it; weak holders—that is,

those who hold a few shares, and are afraid of a call—take alarm. Country holders hear of the decline, and make inquiries. Too often they also, with the idea of realizing something out of their venture, even if they sacrifice the rest, sell out at a loss. Speculators effect fictitious sales at low prices, and thus frighten those who read the money articles in the daily papers, and the fall goes on. There is a run upon the deposits, property cannot be converted into cash fast enough to satisfy the demand, and the result is—a "crash." Now, it is impossible for one bank, or company, or great house, to fall alone. These business transactions are so blended, too, that the ruin of one must entail that of others likewise; the panic increases, and widespread destruction is the result. Certain of our own newspapers were *said*—it is to be hoped incorrectly—to have been among the chief "*operators for the fall*" in 1866; and the curious but incorrect reports which they occasionally circulate, make it necessary for men of business to be very cautious, and to make very close inquiries before they act upon them. For, *canards* as they are, they do still considerably affect the price of securities on our Exchange. It is true that their influence is *diminishing*, and will soon be rendered all but

innocuous; but what has been done by one agency may be done by another; and it is above all things necessary to remember that it is by such means that most deplorable kind of gambling is perpetuated.

Nor in enumerating the many evils which arise out of panics, must we omit to mention the great inconvenience which the public suffer from large sums of money being locked up in monetary companies under liquidation. At such time men in business are distressed, not so much from having lost some of their money, as from having been suddenly deprived, although, perhaps, only for a time, of the use of all their available cash. On Saturday nights masters cannot pay their workmen, and even private individuals are placed in an awkward position from their inability to command a single shilling. This difficulty can be partly met by the liquidator granting to the creditor on his proving his debt a transferable certificate of indebtedness, or where the sum is large, a number of certificates representing the total amount. These certificates would be immediately marketable at a price, and also available as security. This plan has been adopted in recent cases with satisfactory results.

It is by no means certain that "*operations for the*

fall" do not amount to conspiracy punishable at law. What is the definition of a conspiracy? "A combination or agreement between several persons to carry into effect a purpose hurtful to some individual or to the public at large." What can be more hurtful to the shareholders of a company than to depreciate the value of its shares? What can be more hurtful to the public at large than to depreciate without reason shares which are a vendible commodity in the public market? An agreement or combination is entered into to depress shares: what is it but a conspiracy? What are those who are concerned in it but conspirators, and indictable accordingly? If several persons determine to sell their interest in a company, because they have doubts of its stability and no longer think it a desirable investment, the carrying out of their determination might probably result in depressing the shares of the company, but as they acted *bonâ fide* they would commit no offence. If, however, they agree to unite in depreciating, by circulating false reports, or by other fraudulent means, the value of the shares of a company, and in creating if possible a panic, so that having previously sold shares they never possessed, they may be enabled to repurchase them at a much lower price, they would be acting *mala*

fide, and ought we think, to be indictable for conspiracy.

Granting the liability of punishment for conspiracy, it is said that it would be difficult to obtain sufficient proof. It is certainly not an easy thing to obtain evidence of conspiracy, but the greater the number of persons engaged in it the greater the facility there is for finding it out. But it is not *impossible* to detect a conspiracy even where great care has been taken to conceal its operations, for some of the conspirators will generally be found ready to save themselves by turning Queen's evidence. In the case of the conspirators in the City, no great difficulty would be found in collecting evidence in proof of their operations: their clerks, messengers, and porters must have some inkling of their proceedings, and a reward of £1000 would be a tempting bait. The printers of the mendacious circulars which are, even up to this moment, not infrequently issued broadcast, would come forward if properly remunerated. Strong suspicion would attach to large buyers after a sudden and unexpected fall, and the City detectives have tripped up more astute persons ere now than the Stock Exchange bears. But these are only hints. Could not an

association or body of persons be found, who, would, from motives of interest or public spirit, take the matter in hand in time for the next periodical panic, which may, with fair certainty, be predicted to occur within three or four years from the present time? If successful, they would earn the gratitude of thousands, save many a tottering company, and reinstate financial affairs upon their legitimate and sound basis. Even if they failed, which is extremely unlikely, they would not have wasted their time or their money, for the circumstance that the law is on the alert would have a very salutary effect in deterring the culprits.

At the same time it must not be forgotten that, in general, absolute freedom from legal control or interference in the purchase and sale of property of every kind, including shares and stocks, is in itself an undesirable thing; indeed, the practice of speculative buying or selling in anticipation of a rise or fall in price, employed fairly and within the strict limits of honourable business, is not only perfectly legitimate but desirable, in that it tends to prevent sudden fluctuations and to promote greater equalization in prices.

It did not escape notice that, in the panic of *1866*, those companies which were selected for

attack by the knot of shameless wreckers were generally the most unsound, but it is nevertheless true that more than one bank which had to succumb to the machinations of the conspirators was nearly solvent and has since resumed business with success.

The Legislature in view of the events of that unfortunate period, have, wisely we think, enacted that no contract for the sale of bank shares shall be binding unless it contain the numbers of the shares or the name of the actual holder; this simple provision seems completely to meet the circumstances of the case, and it is to be hoped, will prevent a repetition of the shameful malpractices with which we have been made so painfully familiar.

In addition to this safeguard against panic, it would be well if *bonâ-fide* purchasers insist, in critical times, on having their stock or shares delivered on the day specified, and refuse to be put off on any pretence whatever.

There are a few maxims which seem to be forgotten when most they ought to be remembered. "Nothing venture, nothing have," is one; and another is that famous one of the late Duke of Wellington, "High interest means bad security."

Now, all commercial companies—banking, finance, discount, mercantile, or manufacturing — mean trade, and trade means risk. If I buy shares in Jones and Popkins' brewery, I become a brewer to the extent of my liabilities; and just as much a tradesman as though I invested my money in a grocer's shop, and carried on the business myself. I buy shares as I might buy the retail business: if either be well selected, and well carried on, the profits may be large; if otherwise, I shall in both cases lose my money. I am induced to do what I do by the hopes of having trade profits; but then I must at the same time undertake trade risks. It must also be borne in mind that when a private business is made into a company, there is always a presumption against it; for what man, realizing a large income, will hand over its sources voluntarily to a body of strangers? This objection does not apply to banks, finance, and discount companies, by reason of the enormous capital they require.

Having then, with sufficient care, selected my investment with a view to trade profits, and recognising the impossibility of avoiding trade risks, I do not go to sleep; I watch the proceedings of my directors; I attend the meetings of the company;

I study its balance sheets; I vote at all elections; and I bear in mind that it is only by attending to business duties that business risks can be kept down. Lastly, I support the company with my credit and my confidence. I *will* not accept the 'operation' for the fall; and under such circumstances I may not only hope to make my investment a good one, but I shall rarely fail. This is an exemplification of the maxim—"Nothing venture, nothing have."

The Iron Duke's maxim applies to those who forget that trade profits imply trade risks. He would not have said to a young man about to establish himself in a retail business—"Put your two hundred pounds in Consols, and live on the interest, for high interest means bad security;" but he would have counselled rigid scrutiny, and then permitted legitimate adventure. Only, if a man chooses to become a tradesman, and then leaves the shop to take care of itself, the least he can expect is an unpleasant notice in the *Gazette*.

CHAPTER XIV.

HOW NATIONAL DEBTS ARE TO BE PAID.

Necessity for their Payment—Taxation—How to be Adjusted—Direct and Indirect—Argument in favour of each Tax—Excise and Customs—Balance in favour of Taxation partly Direct and partly Indirect.

NATIONAL debts follow the same rule with regard to their payment as other obligations of the kind—they require to be defrayed out of national resources. Foreign debts are sometimes secured by hypothecating some sources of these revenues; but in our own country the whole burden falls on the general income, and is annually paid out of the amount collected by taxes. It is to be observed that no creditor of this nation can require the payment of his individual debt, he can only transfer it to another person, who will, in that case, become the creditor in his place, and receive his portion of the dividends. And here intervenes the connexion between the money market and the *taxation* of the country. If the debt be a national

one, the payment of the interest becomes a national duty; and all who derive benefit from the results produced by the money lent to the nation are bound to take a part in that payment. Taxation, also, affects the money market directly and mechanically, as well as philosophically, for an unpopular or impolitic tax will cause a fall in the funds in direct proportion to its unpopularity or its impolicy.

Again, whatever is an evidence of the general welfare raises the price of the funds—and nothing can be a greater evidence of this than a surplus revenue—a deficit always lowers the current value, while a surplus income as invariably has the opposite effect. On this account the subject of taxation must not be omitted here, though it will require to be briefly treated.

We have arrived at the conclusion that the purposes for which, among ourselves, taxation is imposed, are just and right. We come next to the questions, in what manner these public contributions should be levied? and who are the persons on whom the burden ought to fall?

Of these two questions, the latter must take precedence, because the manner of raising the public income is wholly determined by the con-

sideration upon what classes it is intended to lay the burden.

If I wish to tax solely the rich, I must lay an impost on all articles of luxury, and establish a property-tax of such a nature as to leave untouched small sums and small incomes. If I wish to tax chiefly the poor, I must tax the necessaries of life, and the wages of the workman. But it may be remarked, that no system of mere taxation can be devised by which the wealthy can be altogether exempted, and the poor alone burdened.

All that can be done towards this iniquitous and impolitic end is to make the poor man pay as much as the rich; and this would be effectually accomplished by taxing simply the *necessaries* of life; for as the rich man cannot consume more than the poor, so he would not be called upon to pay more.

We think it will hardly be denied that, as Government exists for the welfare of all, it has a claim upon all for support; and this will be the more evident in proportion as the right is recognised of universal *representation* (universal *suffrage* is another thing). No man is exempt from this claim simply because he is poor, for he, in return, *makes* his claim upon Government for protection

in life and limb, in the exercise of his civil rights, and his religious duties. He requires to be defended against invasions from abroad, and riots at home; and for these advantages he looks to the rulers of the country.

Universal taxation, therefore, *must* follow universal representation; and if the principles of pure justice were applied to the question, none would be more easily solved, for each would then be called upon to contribute in proportion to his ability. Not simply because he who has ten thousand pounds receives ten times as much protection as he who has but one thousand, nor solely on account of any arithmetical proportion whatever, but also because all men are stewards of that wealth which God has given, and which is *His;* they are bound as such, therefore, to distribute it. The duty of supporting Government is of divine authority, and men are under obligation to fulfil it according to what they have, and not according to what they have not.

The object of taxation, then, is to raise by the contributions of every member of the community a sum requisite for, and adequate to, the public service, and to arrange these contributions so that no one shall pay more or less than his share.

This is attempted to be done by two modes of taxation, direct and indirect.

Taxation is *direct* when a specific sum of money is demanded of the citizen for the use of the Government. An income-tax, a property-tax, a land-tax, a poll- or capitation-tax, assessed taxes, legacy-duties, poor-rates, and rates of all kinds, are instances of direct taxation.

Corn-laws, excise, customs, and stamp-duties are instances of indirect taxation.

It has been contended by some, that all taxation ought to be *direct*; by others, that it ought to be wholly indirect.

The advocates of direct taxation say that as property and persons alone require Government protection, so an income-tax which repays the one, and a capitation-tax which defrays the expenses of the other, would be at once the fairest, the easiest to collect, and the least expensive in the collection of all imposts; and that therefore into these all taxes should be commuted.

They further observe that direct taxation is by no means so unpopular as it is sometimes supposed; that men are willing to pay their contributions, when they are satisfied of the necessity, which all are now, and when they see the fair-

ness of the assessment, which all then could understand.

They also contend that the negative benefits of direct taxation are yet greater than the positive, for in all indirect taxation the expense of collection is doubled: the interests of particular classes or trades are consulted, to the disadvantage of the rest; a new crime is created, that of smuggling, the moral evil of which it is very difficult to exhibit to the uneducated classes in its true light, and that the public revenues are diminished, without any corresponding benefit in return. Besides all these objections, indirect taxation interferes with the freedom of trade, and by its restrictions limits and sometimes neutralizes the advantages which the industry of a country may obtain for its inhabitants.

The advocates for indirect taxation rest their defence on the following points, they contend that—

1. It reaches most easily all incomes, securing the contributions of all to the public need. It may be very difficult to obtain the payment of a few shillings by way of direct taxation from the labouring man; but it is very easy to lay a tax upon his bread, his beer, and his tea, which tax he cannot avoid paying, and does indeed pay unconsciously, and without a murmur.

2. That it avoids the unpopular and apparently oppressive measure of demanding so much money as a direct payment for Government protection, and at the same time is free from the objection of encouraging falsehood and concealment, which an income-tax is sure more or less to occasion.

3. That it involves the principle of protection, without which, as they allege, the agriculturist and manufacturer of our own country have no chance of success in contending with the more lightly-taxed foreigner.

Now, as all these arguments have their weight, and require to be taken into account (save the last, which is to be decided on other grounds, and has been considered in a separate chapter), we have to strike a balance of benefits and evils, and decide accordingly.

The theory which would commute all taxes into an income-tax and a capitation-tax would be a perfectly true one, were it possible for an income-tax to be levied on perfectly fair principles, and to reach accurately the incomes it professes to assess; but the first of these desiderata has not yet been so much as attempted, and all experience shows us that the latter is not to be expected.

Yet it be supposed, however, that a fairly

graduated income-tax were established, reaching *all* incomes, and enabling employers to pay for their workmen, while it did not press too heavily upon the larger incomes, it would still be necessary to create supplementary taxes to supply the deficiency—a growing deficiency, too—occasioned by the evasions of the tax.

Should this deficiency be made good by direct or by indirect taxation? Partly, without doubt, by the former; a few direct taxes on articles of luxury or ostentation—such as carriages, horses, dogs, armorial bearings, servants not employed in business—would be expedient, both as supplying the required sum and equalizing the irregularities of the greater and more universal tax.

A house-tax, if equitably levied, is perhaps as fair as any of these supplementary imposts, for few more accurate means exist of ascertaining the amount of any man's income than the manner in which he chooses to be lodged. Few taxes are, on the other hand, more noxious than a window-tax, its results being equally injurious to health, to taste, to art, to trade, and to comfort.

If, after all, any mode of indirect taxation should be considered needful in aid of the more direct mode, it should be levied on such subjects as are

of sufficiently general use to produce a sum large enough for the purpose required, and which are yet not the absolute necessaries of life.

The argument against the *principle* of direct taxation, on the ground of its unpopularity, may be speedily disposed of. Men for the most part regard the matter from a purely utilitarian point of view, and are keen enough to perceive which system is really the most oppressive. If a Government which obliges me to pay seven pounds per annum in direct taxes does at the same time enable me to save ten pounds every year in the necessaries of life, I shall hardly be so foolish as to clamour against direct taxation, nor is it likely that the real state of the case can be hidden from the great mass of the nation. On the whole, the balance of argument is really in favour of the more direct method, while at the same time direct taxation could not be imposed to the extent which our necessities require; and there are also limits within which indirect taxation may at all times be permitted without disadvantage.

The last question is, Whether there be any probability of liquidating this debt? That it is desirable, it has been already seen; although, as its *desirability* consists in the decrease of taxation,

every tax, either direct or indirect, which is remitted, has precisely the same effect on the amount demanded from the public, as though a portion of the debt, with its consequent burdens, were removed. There is, moreover, this advantage attending the removal of taxes, instead of liquidating portions of the debt, that those imposts which are most objectionable may be taken off in succession; and when no obnoxious taxes remain, then the surplus may be applied to the liquidation of the debt.

THE END.

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